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ROYAL COMMISSION

ON

BANKING AND CURRENCY

PROCEEDINGS

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VOLUME I

ROBERT BRYDIE,
OFFICIAL REPORTER

ROYAL COMMISSION ON BANKING AND CURRENCY

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Vol. 1

Robert Brydie,
Official Reporter.

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VOLUME I

ROYAL COMMISSION ON BANKING AND CURRENCY

THE RIGHT HON. LORD MACMILLAN, P. C., K. C., Chairman.

SIR THOMAS WHITE, P.C., K.C.M.G.

SIR CHARLES ADDIS, K.C.M.G.

BEAUDRY LEMAN, B. Sc., C.E.

HON. J.E. BROWNLEE, K.C., M.L.A.

B. J. Roberts, Esq.,
Secretary.

A. F. W. Plumptre, Esq.,
Assistant Secretary.

PUBLIC SITTING

Senate Railway Committee Room,
Parliament Buildings,

OTTAWA, Ontario,

8th August, 1933.

FIRST DAY

Robert Brydie,
Officiall Reporter.

Parliament Buildings,
OTTAWA, Ontario,
8th August, 1933.

MORNING SESSION

---The Commission met at 11:00 A.M.

THE CHAIRMAN: I call upon the Secretary to the Royal Commission to read the terms of reference.

THE SECRETARY: Your lordship and gentlemen, the terms of reference are contained in P. C. 1562, reading as follows:

> Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by The Deputy of His Excellency the Governor General on the 31st July, 1933.
>
> The Committee of the Privy Council have had before them a report, dated 31st July, 1933, from the Acting Prime Minister, representing as follows:
>
> That it is desirable that the approaching periodic revision of The Bank Act, which will precede the enactment of a measure to continue the charters of the existing banks, to which said Act applies, and which expire on July 1, 1934, shall be based on a complete and detailed examination of the provisions of said Act and of the functions and operations thereunder of the banking system thereby established;
>
> That it is also desirable that such examination should include a study of the facilities now afforded by The Finance Act and a careful consideration of the advisability of establishing in Canada a Central Banking Institution, and, if so established, of the relation of such Central Banking Institution to existing banks and its proper authority and function in the operation of the banking system of Canada;
>
> That such examination should also include a study of the entire monetary system of Canada, including credit, currency and coinage, particularly in their relation to commodity price movements and fluctuations in international exchange;
>
> That it is also advisable to consider whether and in what respects the banking institutions and the monetary system of Canada may be modified, extended or developed for the purposes of facilitating

inter-Imperial and international co-operation in public policies designed to promote the revival of domestic and foreign trade and enterprise and the general increase of employment and to ensure a greater measure of stability in respect thereto.

The Minister, therefore, recommends that

1. The Right Honourable Lord Macmillan, P. C., K. C., of the City of London, England;

   Sir Charles Stewart Addis, K. C. M. G., of the City of London, England;

   The Right Honourable Sir William Thomas White, P.C., K.C.M.G., of the City of Toronto, in the Province of Ontario;

   The Honourable John Edward Brownlee, K.C., M.L.A., of the City of Edmonton, in the Province of Alberta;

   and

   Beaudry Leman, Esquire, B. Sc., C.E., of the City of Montreal, in the Province of Quebec;

   be appointed Commissioners under Part I of The Inquiries Act for the purpose of examining, considering and reporting upon all the matters hereinbefore recited;

2. That, without limiting the general scope of their inquiry into the operation of the banking and monetary systems of Canada, the said Commissioners shall, in particular, examine the provisions and working of The Bank Act, the Dominion Notes Act, The Finance Act and The Currency Act, and the advisability of establishing a Central Banking Institution; and

3. That said Commissioners shall report their recommendations for revising or supplementing the above mentioned Acts and for the adoption of such other measures as they may deem desirable to promote the revival of trade and enterprise and to facilitate inter-Imperial and international co-operation for the purpose of raising the level of commodity prices and for the purpose of ensuring increased domestic employment and the stability of the economic, financial and social institutions of this country.

The Minister further recommends that The Right Honourable Lord Macmillan, P.C., K.C., of the City of London, England, be Chairman of the

said Commission.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Signed) G. G. Kezar

Asst. Clerk of the Privy Council.

THE CHAIRMAN: The terms of reference will be recorded in our proceedings as our authority.

HON. E. N. RHODES (Minister of Finance): Lord Macmillan and Gentlemen of The Royal Commission: It is my very pleasant duty on behalf of my colleagues in the government to bid you, Lord Macmillan and Sir Charles Addis in particular, welcome to Canada. In the case of Lord Macmillan, he has given up a well earned and richly deserved holiday in order that he might serve the people of Canada on this Commission. Sir Charles Addis has upset private arrangements of an important character that he might do likewise, and I wish to say to them that we very deeply appreciate their presence here particularly under those circumstances.

I should also like, if I may, to say a word of welcome to Lady Macmillan and to Lady Addis, because I speak from experience when I say that but for their goodwill and concurrence I am quite sure that the presence of these gentlemen would not have been possible under the circumstances. I trust that since they have graced this occasion by their presence it will prove a happy augury for the success of this undertaking. While the opportunities of the ladies might be circumscribed by the more or less frozen itinerary of the Commission I hope that their visit will be entirely pleasant and agreeable to

them.

I also wish to thank the Canadian members of the Commission, who also have had to make very great sacrifices in order to serve. I am sure that I speak for the whole people of Canada when I say that we deeply appreciate their accepting the task which they are about to undertake.

I am sure that all the members of the Commission will be animated by the underlying ideas expressed by the Chairman upon his arrival in Canada, that you might be able to perform some useful work for Canada.

While we all realize that the work of this Commission is of the very greatest importance, upon reflection it has occurred to me that it would be neither desirable nor necessary that I should attempt any historical review of banking conditions in Canada. That will unfold itself in the course of your inquiry. Nor do I think it is necessary that I should recite the steps which have led up to the formation of this Royal commission. Perhaps in this connection I might quote just one paragraph from the Budget speech which was delivered in March of this year, as follows:

> A bill has already been introduced in this House providing for the extension of existing bank charters until July 1, 1934. Before that date the periodic revision of the Bank Act will have taken place. Speaking in this House more than a year ago, the right hon. the Prime Minister raised the question as to whether or not a central bank should be established in Canada. In recent months the question has been widely discussed, but it must be recognized that it is a highly technical matter, upon which conclusions should be reached only in the light of the fullest inquiry into all aspects of the problem. The government proposes, therefore, to appoint a royal commission to study the organization and working of our entire

banking and monetary system, to consider the arguments for and against a central banking institution and to make recommendations for revising or supplementing our existing legislation.

I am quite sure that Lord Macmillan will be the fir to admit that the terms of reference which were read a few moments ago are sufficiently wide to cover all that is suggested in that paragraph. In wishing you Godspeed in your endeavours I wish to assure you that you will be supported by the goodwill and the good wishes of the Canadian people, and in entering upon your work I want you to be assured that it will be a pleasure to the government to facilitate your endeavours in every possible way, and to that end you have only to indicate your wishes and every facility which we possess will be placed at your disposal.

THE CHAIRMAN: Mr. Rhodes, Ladies and Gentlemen, I desire in the first place to express to the Minister of Finance on behalf of my colleagues and myself our high appreciation of his kindly words of welcome and encouragement. We are well aware of the importance of the task which we have undertaken and we recognize that such success as we may be able to attain in its discharge must largely depend on the goodwill of all who are able to assist us in our labours.

The terms of reference to the Royal Commission have already been read, and need not be repeated by me here. It is enough to say that the immediate occasion of our appointment is the arrival of the period when the Bank Act comes up for its decennial revision. The first Dominion Bank Act was passed in 1871. Since then the statute has been revised five times, in 1880, 1890, 1900,

1913 and 1923. Under the Act of 1923 the bank charters were due to expire on 1st July, 1933, but Parliament has in the special circumstances extended their endurance for another year. These periodical stocktakings are an interesting feature of the Canadian banking system. They enable the existing code to be reviewed at reasonable intervals in the light of changing circumstances and growing experience. No human institutions are perfect and it is inevitable that in the working even of the best devised code defects will from time to time be revealed and useful improvements suggest themselves. And indeed, as we know to our cost, the circumstances in which a code was originally framed may subsequently undergo fundamental alteration, so that a system admirably adapted to serve one stage of national development may prove inadequate without fresh adjustments to meet new and unforeseen conditions. Even if examination reveals no defects it is always reassuring to know that our machinery is subject to periodical inspection and overhaul.

Previous revisions of the Bank Act have in the past been effected under the ordinary procedure of Parliament, but on the present occasion it was deemed advisable, in view of the unprecedented stresses and strains to which the economic and financial world has in the past two years been subjected, to appoint a Royal Commission to make a special examination of the banking situation from a somewhat wider point of view. It is one of the advantages of the generous terms of reference which have been handed to us that while our parimary concern is the investigation of the working of the Bank Act during the past ten years

with a view to making such recommendations, if any, as may be found to approve themselves by way of revision, we are permitted to take into consideration larger issues of policy as affecting Canadian banking and currency generally, and to offer any suggestions which the evidence may justify to meet the pressing difficulties of the day.

There can be no question that the past ten years have seen the emergence of a number of new problems affecting the banking world of a singularly complex and refractory character, while many of the old problems have assumed a new guise and a new importance. To take only one instance, the international aspect of banking has become much more prominent. The world is daily growing smaller as distance is annihilated and the economic interdependence of the nations of the globe has received, in some quarters at any rate, growing recognition. It may be well to consider the adequacy of our existing machinery to deal with this new phase of finance. No one can deny the difficulty of such problems.

We are happy to know that the Canadian banking system has been recognized, even by those most disposed to be critical, to have come through this most trying period so far with admirable fortitude. It has stood up well to the demands which the world crisis has made upon its resources and has retained the general confidence of the community which it serves. In view of the less fortunate experiences of others, this is a tribute which the banks of Canada well deserve to have paid to them. The institution of this Commission in no sense implies a condemnation of Canadian banking; its purpose rather is to

lend such assistance as may be possible, in enabling it to cope with the difficulties with which it is confronted and the new needs which it has to meet. I fear my nationality may perhaps make me a partial judge, as may be the case also with my colleague, Sir Charles Addis, but I cannot help feeling that the fine record of Canadian banking in the past is due in part at least to the fact that it has been so largely modelled on the banking system of Scotland and has enjoyed the services of so many officials trained in the sound traditions of that system. It is not without significance that of the one hundred and forty or so charter members of the Bank of Montreal at least ninety bear Scottish names, while among the eighty-nine incorporated members of the Quebec Bank there were thirty Scottish names.

There is a tendency to regard problems of banking and money as peculiarly mysterious. It is quite true that the science and the art of banking have their technical aspects which are often recondite and difficult for the mere layman to understand. But that is the way with all branches of science, not least with that which I have myself practised all my life, the law. It is the same with medicine and with physical science. Yet the daily life of everyone of us is affected by the advances which are made in law, in medicine and in science generally, and while it would be absurd to expect everyone to have the technical equipment of the barrister, the doctor or the physicist, we laymen are entitled to ask those to whom these special provinces are assigned to give us such explanations of their work as an intelligent citizen can appreciate and to render to us some account of their

activities which shall reassure us that these activities are being so conducted as to be conducive to our welfare. The inquiry on which we are now embarking affords just such an opportuntiy of explanation to the people of Canada of the general working of their banking system whose efficiency is to them a matter of practical daily concern. The technicalities are and must necessarily be for the expert, but technique is of value not for itself but only in so far as it serves practical ends, and while we cannot all be banking experts we can all say how far our reasonable practical requirements are met by the existing technical apparatus. It is for the expert in the light of these requirements to devise the best technical means of meeting them.

And here I must be permitted to enter a personal disclaimer, for I see that I have been described as being myself an expert in banking and finance. Nothing could be further from the truth. My role is the much humbler one of contributing to this investigation an unbiased and open mind with some experience in weighing evidence in matters of practical business. I should like to add for Sir Charles Addis as well as myself that we have come from the other side animated with only one desire, the desire to join with ourCanadian colleagues in the sympathetic study of your special banking problems in the hope that we may thereby be of some service in the promotion of the welfare and prosperity of this great Dominion.

Such inquiries as this serve a negative as well as a positive purpose. They enable the public to know what cannot be done as well as what can be done. It is perhaps due to the necessary unfamiliarity of the layman with

the principles which underlie sound banking that he often brings himself to believe that almost anything -- even a new economic heaven upon earth -- can be brought about by manipulating finance. I need not say how many such schemes have reached me. The only trouble is that no two of them agree. The trouble is that while a sound banking system is one of the most valuable of national assets and an immense aid to trade and commerce, it is not itself productive. It is merely the servant of production and distribution and unless a country is running itself on sound business lines the most perfect banking system in the world cannot save it from the inevitable consequences of its breaches of economic law.

Now I should like to say a few words as to the programme which we propose to follow. It appears to us that it would be valuable in the first instance to have presented to us on behalf of the bankers of Canada a general picture, historical and descriptive, of the banking system as we find it. That information will be of special value to Sir Charles Addis and myself who have some familiarity with other banking systems, but who are, of course, desirous of being educated in the special features of the Canadian system. We approached the Canadian Bankers' Association with a requestto furnish us with such a descriptive statement, and I am happy to say that they most courteously responded to our invitation.

We desire in the first instance to have a statement entirely devoid of any matters of criticism or controversy, and which will give us as a matter of record a complete presentment of the existing system. For that purpose, those who are engaged in the conduct of banking in this

country are naturally best qualified to assist us.

The other aspect of banking, its relations to the government departments, particularly the Department of Finance, will be presented to us to-morrow by the Deputy Minister of Finance, who has kindly arranged the material, the series of statutes and various other documents, which ought to be on file, and who will furnish a statement of the relations of the government to the banking system. When we have such an account before us we shall then be able to appreciate in our further progress the points of criticism which may emerge.

We propose to-morrow night to leave for the west, and our first meeting will be held at Victoria in British Columbia. From there we shall work our way steadily east, and at each of the important cities on our way we shall both hold public sittings and have an opportunity for conferences in private with all the various interests affected. In that way we shall hear the criticisms, comments and suggestions which can be offered from various quarters. Each province has its own particular problems; its own development has no doubt proceeded on lines dictated by its economic position; and we shall have the advantage of hearing on the spot the views on the one hand of those who administer banking in the provinces, and on the other hand of those who represent the consumer interest and who will equally have the opportunity of indicating to us the points at which they think an improvement might be effected. In that way we hope to collect a valuable body of exposition on the one hand, and of criticism on the other.

Then we shall return to the east and have a series of sittings in Toronto and Montreal. We shall also pay a

visit to the maritime provinces, returning finally to Ottawa, and we shall then be able to put before the bankers of Canada the points which appear to the Commission to be deserving of special attention, and to invite their consideration of suggestions that have been made, as to their practicability and their possible benefit. In that way I think we shall most usefully bring our investigation to a conclusion and proceed to consider what the terms of our report should be.

I hope that in our report, taking advantage of the material that we are to receive, we shall be able to give a short and authoritative account of the banking system of Canada which will be of general interest. It is always very difficult to make a technical report of interest to the public, but I have always felt that even the most technical matters have their practical and human side, and those who after all are affected by the operations of the technical expert should have an opportunity of appreciating in general outline at least the mechanism of the system under which they live. That can be done, I think -- and I have had a little experience of it -- in such a way as to avoid undue technicality and be really informative to the public mind.

We are all aware that there is an intellectual ferment in the world at the present moment. People are much more curious and much more critical about all their institutions, and much misinformation is abroad on many topics. Inquiries such as this have a real value in so far as they are able to inform the mind and satisfy the curiosity of those who in times of difficulty are naturally looking around for any scapegoat upon whose shoulders they may lay the burden of their misfortunes. It is very desirable therefore

that we should always bear in mind that we are addressing not merely the technical banker but addressing also the people of Canada and we desire in the conduct of our proceedings to assure what I might call the consumer interest that we shall listen most sympathetically to all of their representations and take them up with the bankers with a view to seeing how far it is possible within the limits of sound banking to effect improvements or alterations which may be satisfactory to them.

That, then, is the course which we have agreed among ourselves we should pursue.

It only remains for me in conclusion to say that we are looking forward to the discharge of our duty with great interest. I know for myself that I shall learn a great deal. The mere opportunity of hearing about the working of another system is in itself an educative thing, and the interchange of views with our colleagues will, I have no doubt be a most interesting experience for us all, as well as the many contacts which we shall establish in different parts of the Dominion. It is our sincere hope that as a result of this inquiry we may be able to make recommendations which will be reassuring to the people of Canada and may make a contribution to that recovery of commercial and financial prosperity which is the hope of us all. If we are able to do that to any extent I can assure you, Mr. Minister, that we shall be amply rewarded for the sacrifices to which you have been good enough to refer. Quite frankly I do not find that there is any sacrifice at all in coming to Canada . Your kindness and your generous hospitality makes even the labours of a banking commission attractive, and I shall merely have changed the

character of my holiday and not have lost my holiday. In saying that, I am sure that Sir Charles Addis will agree with me, although I am not so sure that I can say the same for my Canadian colleagues who are taken away from their normal avocations.

I thank you most cordially, Mr. Minister, for your kind words, and not least for your reference to the powers behind the throne, to which, of course, we all, even bankers, and not less members of royal commissions, are secretly subject. We always hear of the hidden hand as being so important in finance. The hidden hand in this case has seen to it that we have come here and will no doubt exercise a restraining influence upon our proceedings!

Now we shall get to business at once. As I say, the Canadian Bankers' Association has very kindly agreed through their President, Mr. McLeod, to assist us this morning by giving us a general exposition of the Canadian banking system. For the sake of greater accuracy it has been reduced to writing, and Mr. McLeod will be good enough to read to us his historical outline of banking legislation in Canada.

This afternoon we propose to take the opportunity of conferring with the bankersfor the purpose of raising some of the matters which are not of so much public interest. The conference in the afternoon will therefore take place in private, a conference for the purpose of discussing more technical matters which are not of such general interest. The matter which Mr. McLeod is about to present I think should be placed at once at the public disposal.

(Page 50 follows)

MR. J. A. McLEOD (President, Canadian Bankers' Association):

First of all I would like to say, Mr. Chairman, that the presence of so many bankers here this morning has two objects, first, to pay their respects to your Lordship and your colleagues on the Commission, and to assure you that they are willing and ready to cooperate with the Commission in every way they can.

Banking under statutory authority in what is now the Dominion of Canada began on the 18th May, 1822, with the granting of a charter by the Legislature of the old Province of Canada to "The President, Directors and Company of the Bank of Montreal" (name later changed to the "Bank of Montreal").

In 1817, nine merchants of Montreal signed Articles of Association to conduct, without statutory authority, a banking business. In the interim, until the charter above referred to was granted to these merchants, bank bills or bank notes were issued by the Association on the credit of members and a general business of banking was carried on by them.

Certain features in the 1822 charter of the Bank of Montreal can be traced to the provisions of the charter of the Bank of the United States, reported and believed to be the work of Alexander Hamilton, which had been established in 1791. One of these features, in almost the identical language, permitted the directors of the Bank of Montreal to open and establish branches or agencies at other places than Montreal, the chief place of business. The right to establish branches or agencies has been a part of every bank charter granted since 1822, and appears in the same

language in section 75 (a) of the Bank Act now in force.

A second feature in the charter of the Bank of the United States reflected in the charter of the Bank of Montreal forbade the Bank either directly or indirectly

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to acquire or hold any real estate other than such as might be necessary in which to conduct the Bank's business. That feature has persisted in the banking legislation of Canada to the present day (see section 39, chapter 5, 1871, and section 78 of the Bank Act). Its origin in the charter of the Bank of the United States was due to the fact that after the close of the Revolution in 1783 speculation in lands in the United States brought about a distrust in the acceptance of lands as security for a banking loan. Alexander Hamilton, in settling the terms of the charter of the Bank of the United States, determined to limit the powers of the Bank with regard to lending upon the security of real estate because of its non-liquid character (see Report, 1790, of Hamilton, as Secretary of the Treasury, upon a proposed National Bank). The wisdom of this provision has without doubt saved Canadian banking during more than one period of land booms and land speculation.

It should be added that a collateral feature of the prohibition in both charters, in almost identical language to that used in Hamilton's Report, permitted the Bank to acquire mortgages or hypothecations on land by way of additional security for debts to the Bank antecedently contracted in the course of the Bank's dealings. That feature of the charter of the Bank of Montreal is found in the Canadian Bank Act to-day (section 79).

The Bank of Montreal was authorized to issue its notes payable to bearer. In the first charter the total amount of its notes in circulation was not to exceed the aggregate amount of the paid up capital

stock and the gold and silver coin and bullion and debentures or other securities reckoned at par issued or guaranteed by the Province, on hand. In 1840 it was enacted, at the instance of the Imperial authorities, that the issue and circulation of notes by the Bank was not to exceed the amount of the Bank's paid up capital. That feature corresponds with the circulation privilege enjoyed by the banks at the present time.

The next charter was that granted to certain merchants in Quebec, who formed the Quebec Bank, which institution opened its doors about 1823 and continued in business until 1917, when its assets were purchased by The Royal Bank of Canada.

Coming to the Maritime Provinces, a banking partnership under Articles of Association was organized in Halifax in the Province of Nova Scotia in the year 1825, under the name of The Halifax Banking Company. The head and front of that organization was Enos Collins. Born in Liverpool, Nova Scotia, in 1774, he began his active career as a privateer and by 1825 had become one of the richest men not only in Nova Scotia but in any part of what was then British North America. The Halifax Banking Company continued as a private partnership, issuing its bills, which were rated as high by the people of the Province as the obligations of the Government itself, from that date until 1872, when corporate powers were obtained from the Dominion of Canada. This institution sold its assets to The Canadian Bank of Commerce in 1903.

In 1832 in Nova Scotia a charter was granted by the Legislature of that Province to The Bank of

Nova Scotia, which institution a year ago celebrated itsone hundredth anniversary of continuous operation. A special feature appeared for the first time in the charter of The Bank of Nova Scotia, the double liability of shareholders. That feature is now applicable to all Canadian banks under the provisions of the Bank Act.

In New Brunswick in 1826 banking business under corporate powers obtained from the Legislature of the Province was first carried on by the Bank of New Brunswick. That institution afforded banking facilities in that Province until 1913, when its assets were acquired by The Bank of Nova Scotia.

In Upper Canada, what is now Ontario, the first bank to receive corporate powers was the Bank of Upper Canada, almost contemporaneously with the granting of a charter to the Bank of Montreal. This institution continued in existence until 1866, when it went into liquidation.

One special feature in the history of Canadian Banking was the establishment in Canada by Royal Charter in 1840, of the Bank of British North America; the charter was granted in London by Her Majesty, Queen Victoria. Its shareholders were almost wholly resident in Great Britain. That Bank continued until 1918, when its assets were purchased by the Bank of Montreal.

As a consequence of the discovery of gold in British Columbia in 1858, another bank was established by Royal Charter, the Bank of British Columbia, to conduct banking business on the Pacific Coast. This charter was granted in 1864, and the Bank continued

in business until its assets were purchased by The Canadian Bank of Commerce in 1901. Its shareholders were likewise almost wholly resident in Great Britain.

Of the ten banks still carrying on business in this country, the first established in what is now the Province of Ontario was The Bank of Toronto, with head office at Toronto, whose charter dates from 1855.

In 1861 the Banque Jacques Cartier, with head office in Montreal, received its charter from the old Province of Canada, and was succeeded on reorganization in 1900, under special enactment, by La Banque Provinciale du Canada, one of the ten banks in operation to-day.

In 1867 The Canadian Bank of Commerce, with head office in the City of Toronto, opened its doors for business under a charter previously obtained from the Province of Canada.

In the year 1869, what is now The Royal Bank of Canada, with head office in the City of Montreal, (statute of 1900) received its charter under the name of The Merchants' Bank of Halifax. The Bank began to carry on the business of banking in that year in the Province of Nova Scotia. This charter and all subsequent charters have been granted by the Dominion Parliament, pursant to the British North America Act.

In 1871, The Dominion Bank, with head office in Toronto, began to carry on the business of banking under charter previously obtained.

In 1874 Banque d'Hochelaga (now Banque Canadienne Nationale - the name was changed by statute in 1924) commenced banking operations, with head office in Montreal

in Montreal under a charter duly granted.

In 1875 the Imperial Bank of Canada, with head office in Toronto, commenced business under a charter duly granted.

Between 1875 and 1929 charters were granted by Parliament to a number of banks, that after carrying on business for a time, sold their assets to other banks, particulars thereof being included in the list later set forth in this memorandum at page 24.

The most recent of the banks now in operation to receive a charter was Barclyas Bank (Canada), with head office in the City of Montreal, Barclays Bank (Canada) was granted a charter in March, 1929, and commenced business in September of that year.

Prior to 1859 the rights and powers of an incorporated bank in the various provinces now forming the Dominion of Canada depended upon the provisions of its charter and upon the general law. There was not then, as there is now, a general Bank Act treating all incorporated banks alike and some possessed powers which others did not possess, or were subject to restrictions not applicable to others.

One or two special features in the powers granted to particular banks in the old Province of Canada (Quebec and Ontario) may be hefe mentioned. Strange as it may seem, the first statutory provisions in the old Province of Canada dealing with bills of lading and warehouse receipts, and the application thereof to the banks generally was enacted in 1859, being chapter 20 of the statutes of that year, entitled "An Act

Granting Additional Facilities in Commercial Transactions". Prior to that, the rights of banks to acquire bills of lading and warehouse receipts as security for advances depended upon the general law and upon the provisions of the charter of each bank. The Act of 1859 referred to provided that, notwithstanding anything to the contrary in the charter or Act of Incorporation of any bank in the Province, any bill of lading or any receipt given by a warehouseman, miller, wharfinger, master of a vessel or carrier, for cereal grains, goods, wares or merchandise, stored or deposited . . . . might by endorsement thereon, by the owner of, or person entitled to receive such cereal grains, goods, wares or merchandise, be transferred to any incorporated or chartered bank as collateral security for the due payment of any bill of exchange or note discounted by such bank in the regular course of its banking business, and being so endorsed, should vest in the bank all the right and title of the endorser, etc. This provision is now section 86 of the Bank Act.

It will be noticed that there were only five classes of persons entitled under it to give a receipt for goods which might be transferred as collateral security, namely a warehouseman, a miller, a wharfinger, a master of a vessel or a carrier.

In 1861, chapter 20 of the Acts of 1859 was amended respecting the five classes of persons mentioned therein, the effect of the amendment being that a warehouseman, Miller, wharfinger, master of a vessel, or carrier, who ordinarily gave a warehouse receipt or a

bill of lading in respect of commodities in possession, to the owner of the commodities, which receipt under the law of 1859 the owner could pledge with a bank for advances, could issue a receipt in respect of the commodities in his possession and pledge it with a bank for advances. In other words, the statute of 1861 made the owner of goods his own warehouseman and enabled him to give a pledge, by the delivery of a receipt merely, to a bank which made advances to him, covering the goods in his possession, on the security of such goods.

In 1865 these provisions of 1861 were further amended by chapter 19 of the statutes of the Province of Canada for that year. The amending chapter of 1865 enabled anyone who had timber, boards, deals, staves or other lumber stored or deposited in any cove, wharf, yard, harbour or other place of which he was the keeper, to transfer a receipt signed by him, describing such property, to a bank as security for a contemporaneous advance upon merchandise, timber, boards, deals, etc., described in the receipt.

The principle set forth in the legislation referred to was extended to other articles and classes of borrowers from time to time, as will be hereinafter mentioned, and has remained a permanent feature of Canadian banking legislation.

The statutory provisions above referred to constitute a unique feature in banking legislation. Here is a list of persons entitled to borrow money from a bank upon the security of their own goods and property in their own possession upon a simple form of receipt delivered to the bank. Why, it may be asked, was the

Legislature of the Province of Canada in 1861 willing to introduce such a feature into the laws applicable to banks? The conditions of the time must be looked to for an explanation. The Legislature apparently deemed ti necessary, in order to facilitate commercial and business transactions, that the maximum of security should be made available to the banks, so that they could with what was deemed to be reasonable safety make advances without formality on the security of certain kinds of personal property, remaining in the possession of the borrower. The statute provided that "any such receipt . . . given and endorsed by such person, shall be as valid and effectual for the purposes of this Act, as if the person giving such receipt and endorsing the same were not one and the same person." (section 1, chapter 23, statutes of Canada, 1861).

By the British North America Act, 1867, the power to make laws with regard to

a. Currency and coinage, and
b. Banking, incorporation of banks, and the issue of paper money,

came under the exclusive legislative authority of the Parliament of Canada.

The following is a summary of the chief powers of the banks in all provinces, subject to what has been said before with regard to variations in the Province of Canada, at the time of the passing of the British North America Act:

There was power under the banking legislation at that date

a. to deal in gold and silver coin or bullion and exchange, bills of exchange, discounting of promissory notes, bills and negotiable securities, and any such other trade as beloggs legitimately to the business of banking;

b. to make and issue bank notes;

c. to open branches or agencies; and

d. to take and hold mortgages or hypotheques by way of additional security, but on no account was money to be lent on mortgage, hypotheque or upon land or other fixed property.

Among the limitations,

a. lending money on the security of lands was forbidden;

b. dealing in, buying, selling or bartering goods, wares, and merchandise, or engaging in any trade whatsoever was prohibited;

c. making advances upon the security or pledge of any shares in the stock of the bank or of any other Canadian bank was likewise prohibited;

d. the banks were forbidden to stipulate for, take, reserve or exact a higher rate of discount or interest than 7% per annum, and any rate of interest not exceeding 7% could be received and taken in advance. (Section 91 of the present Act is almost verbatim in this language, which dates from 1859).

The double liability of shareholders in the event of insolvency was a feature of the legislation applicable to all banks in existence at 1867, and is now found in section 125 of the Bank Act.

In 1867, during the first session of the first Parliament of Canada, an Act was passed, being chapter 11 of the statute of that year, entitled "An Act Respecting Banks". This Act applied to the whole Dominion of Canada and extended the charters of the various banks incorporated by the several provinces before Confederation. It was in substance a consolidation of the Acts relating to banks which had been passed by the Province of Canada, and it repeated the provisions relating to bills of lading and warehouse receipts which were then in force and to which reference has just been made.

The Bank Act of 1871

In 1871 a general Act relating to banks and banking was passed, being chapter 5 of the statutes of that year, and though not so named in the statutes, it has been generally referred to as "The Bank Act of 1871". The recital of the Act states that "it is desirable that the provisions relating to the incorporation of banks and the laws relating to banking should be embraced as far as practicable in one general Act", and the enactment then proceeds.

The first section continues the charters of the existing banks to July 1st, 1881.

This Act contains two important sections with regard to the powers and obligations of banks, which repeat substantially but in more precise form some of the chief powers and obligations of the banks hereinbefore set out. These sections are as follows:

> "39. The bank shall have the power to acquire and hold real and immovable estate for its actual use and occupation and the management of its business, and to sell or dispose of the same, and to acquire other property in its stead, for the same purposes.
>
> "40. The bank shall not, either directly or indirectly, lend money to make advances upon the security, mortgage, or hypothecation of any lands, tenements, or of any ships or other vessels, nor upon the security or pledge of any share or shares of the capital stock of the bank, or of any goods, wares, or merchandise, except as authorized in this act; nor shall the bank, either directly or indirectly, deal in the buying and selling or bartering of goods, wares or merchandise, or engage or be engaged in any trade whatever, except as a dealer in gold and silver bullion, bills of exchange, discounting of promissory notes and negotiable securities, and in such trade generally as appertains to the business of banking."

This apparently is the first time in a statute in force in any part of Canada in which there was general power given to carry on "such trade generally as appertains

to the business of banking" (now section 75 (d)).

It will be remembered that the list of persons entitled to borrow money from a bank upon the security of their own goods under the simple form of a warehouse receipt included only persons engaged in the calling of warehouseman, miller, wharfinger, master of a vessel or carrier, cove-keeper or keeper of any wharf, yard, harbour or other place, and with respect to the cove-keeper or keeper of any wharf, yard, harbour or any other place the goods upon which he could so borrow must have been timber, boards, deals, staves, or other lumber. Section 48 of the Act of 1871 further extended the list to which this special privilege was attached, to include a curer and packer of pork, or a dealer in wool, and it declared that in the case of the curing and packing of pork a receipt for hogs should apply to the pork made from such hogs.

In 1872, by chapter 8 of the statutes of that year, these special borrowing provisions embodied in the Bank Act of 1871 were made to extend to cereal grains in process of being converted into malt and flour, and to malt and maltsters, and also to hogs when converted into bacon and hams.

The Bank Act of 1880

In 1880, by chapter 22 of the statutes of that year, section 11, the charters of the existing banks were continued in force until the 1st of July, 1891.

The list of persons entitled to borrow from a bank on the security of their own goods in their own possession under the form of a warehouse receipt, was further enlarged and made to include a saw miller, manu-

facturer of timber, curer or packer of meats, tanner or purchaser of agricultural products.

The Act of 1880 gives the notes of the banks a new status in the event of insolvency. By the statute of that year (now section 131 of the Bank Act) in the case of the insolvency of a bank the payment of the notes issued by the bank was made a first charge upon the assets of the bank even in priority to debts due to the Crown, whether in the right of the dominion or in the right of any province.

In 1888, by chapter 27 of the statutes of that year, the list of persons entitled to borrow from a bank on the security of their own goods in their own possession was further enlarged and made to include a distiller and manufacturer or dealer in cotton.

The Act of 1890

In 1890, in the revision of the Bank Act of that year, by section 4 of chapter 31, the charters of the existing banks were continued in force until the 1st day of July, 1901.

All the provisions dealing with thesecurity which a bank might receive in connection with advances to customers to which reference has been made were consolidated and much extended, to include particularly manufacturers and wholesalers, by enactment which changed the form of the preceding legislation but was more inclusive. Section 74 of that Act, which consolidated and extended the scope of the preceding legislation, provided that

1. "The bank may lend money to any person engaged

in business as a wholesale manufacturer of any goods, wares and merchandise upon the security of the goods, wares, and merchandise manufactured by him or procured for such manufacture.

2. The bank may also lend money to a ny wholesale purchaser or shipper of products of agriculture, the forest and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of live stock or dead stock, and the products thereof, upon the security of such products, or of such live stock or dead stock and the products thereof;

3. Such security may be given by the owner and may be taken in the form set forth in Schedule C to this Act, or to the like effect; and by virtue of such security, the bank shall acquire the same rights and powers in respect to the goods, wares and merchandise, stock or products covered thereby, as if it had acquired the same by virtue of a warehouse receipt."

Schedule C to the Act

"In consideration of an advance of dollars, made by the (name of bank) to A.B., for which the said bank holds the following bills or notes (describe fully the bills or notes held, if any) the goods, wares and merchandise mentioned below are hereby assigned to the said bank as security for the payment, on or before the _____ day of _____ of the said advance, together with interest thereon at the rate of _____ per cent. per annum from the _____ day of _____ (or, of the said bills and notes, or renewals thereof, or substitutions therefor, and interest thereon, or as the case may be.)

This security is given under the provisions of section seventy-four of 'The Bank Act', and is subject to all the provisions of the said Act.

The said goods, wares and merchandise are now owned by _____ and are now in _____ possession, and are free from any mortgage, lien or charge thereon, (or as the case may be), and are in (place or places where goods are), and are the following: (Particular description of goods assigned).

Dated at 18 ".

This legislation, in practically identical language, is in effect to-day as section 88 of the Bank Act and Schedule C thereto.

One further amendment of the Revision of 1890 should be mentioned in this connection. Under the law as it stood there was no safe way for a bank to acquire

a warehouse receipt or a bill of lading under the statutes in force, unless the transaction was a new one, not connected by renewal or substitution with some past transaction, and unless the receipt or bill of lading was acquired at the time of such new transaction. The further amendment, now included in section 90 of the Bank Act, is that the borrower who is not in possession of the security which he intends to offer can give, at the time or before he gets an advance, a "written promise or agreement" that the warehouse receipt or bill of lading or security would be given to the bank when the warehouse receipt, bill of lading or property itself comes into his possession.

The Act of 1890 provided for the establishment of what is known as the Bank Circulation Redemption Fund, the purpose of which was to ensure prompt and certain redemption of the notes of a failed bank. Each bank, subject to certain limitations as to amount of contribution, became in effect the guarantor of the circulation of every other bank. The legislation with regard to the Bank Circulation Redemption Fund has not been changed in any material particular down to the present time. In the forty-three years since it became operative, once only, in 1916, has there been a demand upon the Fund and the contribution of $225,000 then made by the banks to replenish the Fund in the hands of the Minister of Finance has been fully repaid by the liquidator of the failed institution, the Bank of Vancouver (see sections 64 and 65 of the Bank Act).

A new feature in the 1900 measure is the mention of The Canadian Bankers' Association, incorporated by an Act passed during the Session of Parliament

of 1900. Provision was made in this Bank Act that if a bank suspended payment in specie or Dominion notes of any of its liabilities as they accrued, the Association or its president was empowered forthwith to appoint some competent person to act as curator to supervise the affairs of the bank until such time as a liquidator was duly appointed to wind up the business of the bank. As a corollary to the liability of each bank to contribute to the Bank Circulation Redemption Fund, established under the legislation of 1890, the Act of 1900 gave the Association the authority to make by-laws in regard to the supervision of the making of the notes of the banks intended for circulation, the delivery of these notes to the banks, and their destruction. If the banks were virtual guarantors of the circulation of every bank that failed, it followed that there should be clear rules with regard to the making, delivery, receipt and disposal of notes when they are no longer fit for use. By-laws to carry out these purposes have been duly enacted (see sections 117 to 124 of the Bank Act.)

One further provision made in the Bank Act of 1900 has had far-reaching effect. Under that Act any bank is authorized to sell the whole or any portion of its assets to any other bank.

By an amendment to this provision made in the revision of 1913, no agreement by a bank to sell the whole or any portion of its assets to another bank can be made unless and until the Minister of Finance consents in writing that an agreement under this legislation may be entered into between the two banks

(see sections 99 - 111 inclusive of the Bank Act).

Including the cases already mentioned, in which the assets of a particular bank have been acquired by another bank, under this legislation of 1900, twenty-eight banks have been acquired, directly or indirectly, by banks now carrying on business; they are listed below, in order of date of purchase:

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Name of Bank Purchased	and Date of Commencing Business	Name of Purchasing Bank	and Date of Purchase	Assets of Purchased Bank
Bank of British Columbia	1864	The Can. Bank of Commerce	1901	$12,484,709
Summerside Bank	1864	The Bank of New Brunswick	1901	304,000
Commercial Bank of Windsor	1880	Union Bank of Halifax	1902	1,688,140
Exchange Bank of Yarmouth	1869	Bank of Montreal	1903	753,838
Halifax Banking Company	1825	The Can. Bank of Commerce	1903	5,873,157
People's Bank of Halifax	1864	Bank of Montreal	1905	6,082,283
Merchants' Bank of P.E.I.	1864	The Can. Bank of Commerce	1906	2,072,076
People's Bk of New Brunswick	1864	Bank of Montreal	1907	992,190
Western Bank of Canada	1882	The Standard Bank of Canada	1909	5,949,307
Union Bank of Halifax	1856	The Royal Bank of Canada	1910	15,099,578
United Empire Bk of Canada (incorporated as Pacific Bk of Canada, name changed 1906)	1903	Union Bank of Canada	1911	3,851,646
Eastern Townships Bank	1855	The Can. Bank of Commerce	1912	27,684,803
Traders Bank of Canada	1885	The Royal Bank of Canada	1912	51,245,987
Bank of New Brunswick	1826	The Bank of Nova Scotia	1913	11,974,000
Banque Internationale du Can.	1911	Home Bank of Canada	1913	2,915,968
Metropolitan Bank	1902	The Bank of Nova Scotia	1914	[illegible],365,000
Quebec Bank	182[illegible]	The Royal Bank of Canada	1917	21,162,177
Bank of British North America	1[illegible]0	Bank of Montreal	1918	77,682,843
Northern Crown Bank	1908	The Royal Bank of Canada	1918	27,819,291
Bank of Ottawa	1[illegible]7[illegible]	The Bank of Nova Scotia	1919	66,451,000
Merchants Bank of Canada	1868	Bank of Montreal	1922	139,531,688
Bank of Hamilton	1872	The Can. Bank of Commerce	1924	67,904,128
[illegible] Nationale	1860	Bank d'Ho[illegible] (now Banque C[illegible]nne Nationale)	1924	52,000,249
The Molsons Bank	1855	Bank of [illegible]al	1925	68,602,710
The Sterling Bank of Canada	1906	The St[illegible] Bank of Can.	1925	20,845,201
[illegible] Bank of Canada	1865	The Roy[illegible]k of Canada	1925	99,197,375
The Standard Bank of Canada	1873	The Can. Bank of Commerce	1928	104,581,534
The Weyburn Security Bank	1910	Imperial Bank of Canada	1931	3,937,990
				$911,002,858

The Bank Act of 1913

For special reasons there were two temporary extensions of the bank charters in 1911 and 1912, so that the revision took place in 1913; in the latter year the charters of the existing banks were continued in force until the first of July, 1923.

A further amendment to the special security provisions was made: in order to increase agricultural production, the banks were authorized to make loans to farmers upon the security of threshed grain grown upon the farm, taking a security in practically the same form as Schedule C, hereinbefore set out (see subsection 2 of section 88 of the Bank Act).

Chief among the features of that revision was the provision made for a shareholders' audit. This legislation followedthe lines of similar provisions in the English Joint Stock Companies Act, and is still in force and operative (see section 55 of the Bank Act).

One further provision in the legislation of this year was the enactment (now found in section 61, subsections 4 to 13 inclusive of the Bank Act) under which the Central Gold Reserves were set up. Under this legislation The Canadian Bankers' Association, with the approval of the Minister of Finance, could appoint three trustees and the Minister of Finance might appoint a fourth, the trustees so appointed to receive current gold coin and Dominion notes which any bank might desire from time to time to deposit with them. Against such deposits the depositing bank was authorized to issue its own notes up to the amount thereof. That

was in addition to note issues against paid up capital.

A further provision (still in effect, subsections 14 to 18 of section 61 of the Bank Act) dealing with bank note circulation was part of the revision of this year. During the usual season of moving the crops, from and including the first day of September in any year, to and including the last day of February next ensuing, in addition to the amount of a bank's notes authorized for circulation as hereinbefore mentioned, the bank might issue its notes to an amount not exceeding 15% of the combined paid up capital and rest or reserve fund of the bank, the bank paying interest to the Minister on such additional issue at the rate of 5% per annum while such circulation was outstanding.

Under the stress of war in 1915, in order to increase the production of wheat, the banks were authorized to lend money for the purchase of seed grain to the owner, tenant or occupier of land, upon the security of any crop to be grown from such seed grain. This is now subsection 8 of section 88 of the Bank Act, and the security form to be taken in schedule D to the existing Bank Act.

In 1916, banks were authorized to lend to a farmer, and to any person engaged in stock raising, upon the security of his cattle, but such security, taken in the form Schedule E to the existing Bank Act, is to be registered in the district in which the borrower lives, in accordance with the laws in force in

the particular province with regardto the registration of bills of sale and chattel mortgages (see subsection 12 of section 88 of the Bank Act).

The Bank Act of 1923

This Act continued the charters of the banks in force until the first day of July, 1933. By legislation passed in 1933 the charters have been continued until the first day of July, 1934.

There has been in the past criticism from creditors of wholesalers and manufacturers to the effect that the banks were secured by a lien or mortgage upon the property of the borrowers, which security was not publicly registered. To meet this complaint there was enacted in section 88 of the Bank Act heretofore referred to, to this effect (subsection 18): that any person intending to give a bank security under the authority of section 88 of the Act must give notice of such intention before any loan is made by the bank to such person, and the security taken, by signing a document which shall be registered in the office of the Assistant Receiver General of the Province in which the borrower carries on business or resides (subsections 17 to 28 inclusive). Any person may examine such public record and ascertain who may or may not be borrowing from a bank under section 88 of the Bank Act.

Additions were made to the shareholders' audit provisions of 1913. Under the amending legislation two auditors for each bank instead of a possible one only are required. The bank can have only one per-

manent auditor and the other auditor has to be changed every two years. An important addition made to the duties of the auditors requires them to report to directors individually or jointly, transactions or conditions which are not satisfactory to them (see subsection 5 of section 55 of the Bank Act).

The form of the monthly return - a return in some form or other to the Government has been a feature of banking legislation practically from the beginning - was subject to some modification. Certain classes of loans mentioned in the legislation were to be excluded under certain conditions from the "Current Loan" column of the monthly return to the Minister of Finance. This return is to be made to the Minister of Finance by each bank every month, and Schedule G appended to the Bank Act as it now exists gives particulars of the present requirement (see section 113, subsection 5 of the Bank Act).

Section 10 of the Bank Act provides that the capital stock of any bank shall be not less than $500,000 and section 13 provides that not less than $250,000 of this amount must be paid up in cash before the bank can receive a certificate from the Treasury Board permitting it to commence business. This has been the requirement since the Bank Act of 1890 was passed. In the Bank Act of 1871 the bank could commence business when $100,000 of the $500,000 had been paid up, but $200,000 in all had to be paid up within two years thereafter. That continued until the Bank Act of 1890 was passed.

Legislation of 1924

The closing of the doors of the Home Bank of Canada on the 6th August, 1923, resulted in the enactment of the provisions regarding inspection which became law at the 1924 session of Parliament. Under the enactment of that year, authority was given to the Government on the recommendation of the Minister of Finance to appoint an Inspector General of Banks, who should be an officer of the Department of Finance and be paid by the Government. At least once a year the Inspector General is to make, or cause to be made, such examination and enquiry into the affairs of each bank as he may deem necessary and expedient. At the conclusion of each examination the Inspector General is to report thereon to the Minister. If the Inspector General should be satisfied that a bank is insolvent, he is to report fully on the bank's condition to the Minister and the Minister may, without waiting for the bank to suspend payment, request the Association to appoint a curator to assume control and supervise the affairs of the bank until such time as the bank either resumes business or a liquidator is appointed.

Under this legislation an Inspector General of Banks has been appointed, and has since performed the duties of his office in accordance with the requirements of the legislation (see section 56 of the Bank Act).

THE FINANCE ACT

This legislation, while not a part of the Bank

Act, has been of great importance in the legislative banking history since the beginning of the Great War.

The Finance Act, 1914 (chapter 3) was assented to on the 22nd August of that year. It provided, in the case of war, invasion, riot or insurrection, real or apprehended, and in the case of any real or apprehended financial crisis, that the Governor in Council may authorize the making of advances to the chartered banks and to the savings banks to which the Quebec Savings Banks Act applies, by the issue of Dominion notes upon the pledge of securities deposited with the Minister of Finance of such kind and amounts as might be approved by the Treasury Board.

By subsequent legislation after the formal declarations of peace with enemy countries, this provision was continued in effect until 1923.

By chapter 70 of the Acts of 1923, entitled "The Finance Act", at times when the conditions of war, etc., previously mentioned were not in existence, that is to say in times of peace, the Minister of Finance was authorized to make advances to the chartered banks and to the savings banks to which the Quebec Savings Banks Act applies, by the issue of Dominion notes upon the pledge of the securities hereinafter mentioned:

a. Treasury bills, bonds, debentures or stocks of the Dominion of Canada, Great Britain, any province of Canada, and of any British possession;

b. Public securities of the Government of the United States;

c. Canadian municipal securities;

d. Promissory notes and bills of exchange secured

by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax or other commodity;

e. Promissory notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes and which have been used or are to be used for such purposes.

It was further provided that all promissory notes or bills of exchange pledged pursuant to the Act should have a maturity not later than six months from the time at which they are pledged; that advances should be for a period not exceeding one year, the interest thereon to be at such rate as may from time to time be fixed by the Treasury Board.

Under the Act of 1914, the maximum of advances at any one time was $123,689,000 (November, 1920), and under the Act of 1923 the maximum of advances at any one time was $112,900,000 (November, 1929).

Though the advances since 1923 have varied according to the business requirements of the country, there have been borrowings for more or less amounts by the banks under the provisions of the Act for practically the whole period. In January and February, 1927, there were periods when no borrowings were outstanding.

THE CHAIRMAN: That, Mr. McLeod, concludes your analysis of the historical situation?

MR. McLEOD: Yes, Mr. Chairman.

THE CHAIRMAN: I believe you have a further paper dealing with the actual operation of the Banking System. Will you please proceed with the reading of that paper.

MR. McLeod: This is a memorandum on the present

working of the Canadian Banking System:

INTRODUCTION

Since the historical development of the Canadian banks is being dealt with in another document, no attempt will be made in this memorandum to trace the steps by which the Canadian banking system assumed its present form. Suffice it to say that, under the British North America Act, banking in Canada comes within the scope of the Federal and not of the Provincial Authority; that the activities of the chartered banks are entirely governed by The Bank Act; and that the Canadian banks have developed in recent years along much the same lines as the great English banks; though their development has, of course, been conditioned by the special circumstances of Canada.

Some of the distinctive features of the Canadian banking system may be enumerated as follows:

(a) The freedom of the banks from statutory limitation as to the treatment of their reserves; *

(b) The right of note issue possessed by the banks;

(c) The maintenance of an extensive system of branches both within the Dominion and abroad;

(d) The protection of the banks by the pledge of warehouse receipts, etc. (under Sections 86 and 88);

(e) The legislative requirement of an internal audit, and the direct government inspection of the banks;

(f) The provision for assessing a double liability on shareholders in the event of failure;

(g) The right to obtain advances of Dominion Notes from the government (with the approval of the Treasury

* The only statutory limitation is contained in section 60 of The Bank Act, which prescribes that "The Bank shall hold in Dominion Notes not lessthan forty percent of the cash reserves which it has in Canada."

Board), in accordance with the terms of The Finance Act.

I should be added that the Canadian banks are permanently confronted with a problem which, though present in all countries, exists in Canada in an unusually acute form. Owing, in part, to the wide variation of climate between Summer and Winter (which conditions all outdoor activities), and in part to the relatively great importance of the harvest in this country, regularly recurring seasonal fluctuations must be foreseen and provided against on a very large scale.

Thus, the total assets of the banks show a net variation normally of about $140,000,000 (or 5% of the average figure) between January, the month in which they reac their minimum, and October, the month in which they reach their maximum. The banks' holdings of cash, which are less than average during the Spring, and normally at the lowe; in May, rise exceedingly sharply during September and October. Current loans, which reach their minimum at the close of the year, normally rise, with few interruptions, throughout the first three quarters until the end of September; and fall very sharply during October and November, as the harvesting of the crop makes it possible for borrowers to liquidate accumulated obligations.

Such movements are sharply reflected in the deposits. These (in the case of demand deposits) reach a very high point at the close of November, rapidly diminishing thereafter, till at the close of March they have fallen by about one-eighth, or say $60,000,000; they reach their maximum (in the case of deposits subject to withdrawal

upon notice) at the end of January, and steadily diminish thereafter, by about $100,000,000 in all, until they reach a minimum at the end of October. These changes are reflectedin the movement of call loans, both in Canada and abroad; and in the security port-folio; as will be noted in the proper place below.

The number of chartered banks in Canada is ten. As at May 31st, 1933 (at the time of the latest bank statement, which, of course, represents conditions of depression, both at home and abroad), their combined assets were $2,835,000,000. The largest institution making a return reportedtotal assets of $738,000,000; the smallest reported total assets of $8,000,000.

Total loans to the public, of all the banks taken together, amounted on the same date to $1,229,413,000 Of these, $990,854,000 were loans made in Canada; and $238,559,000 were loans made abroad.

As at December 31st, 1932 (the latest date for which this information is available), these banks maintained an aggregate of 3,319 branches, of which 3,158 were in Canada, and 161 were situated abroad.

The branches in Canada were distributed, by banks and by Provinces, as follows:-

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Name of Bank	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitobe	Saskat-chewan	Alberta	British Columbia	Yukon	Total
Montreal Montreal	1	14	13	120	213	36	51	55	52	2	560
Nova Scotia	9	36	37	23	134	7	22	9	6	-	283
Toronto	-	-	-	15	04	12	27	13	9	-	180
Provinciale	4	-	13	107	14	-	-	-	-	-	138
Commerce	7	19	6	67	300	43	91	67	65	2	667
Royal	6	62	22	82	253	72	118	68	55	-	738
Dominion	-	-	1	8	99	12	4	5	4	-	133
Nationale	-	-	-	213	15	8	7	6	-	-	249
Imperial	-	-	-	4	122	8	39	23	12	-	208
Barclays	-	-	-	1	1	-	-	-	-	-	2
	27	131	92	640	1,258	198	359	246	203	4	3,158

Name of Bank	United Kingdom,	United States	New-foundland #	West Indian Islands, ##	European Countries	South & Central America	Total
Montreal	2	3	5	-	1	2	13
Nova Scotia	1	3	12	23	-	-	39
Toronto	-	-	-	-	-	-	-
Provinciale	-	-	-	-	-	-	-
Commerce	1	5	3	4	-	2	15
Royal	2	1	5	52	2	29	91
Dominion	1	1	-	-	-	-	2
Nationale	-	-	-	-	1	-	1
Imperial	-	-	-	-	-	-	-
Total -	7	13	25	79	4	33	161

- including St. Pierre and Miquelon

- including Cuba and Puerto Rico.

There has been no failure of a Canadian bank during the past ten years; and in the depression years the banks have been fortunately free from confidence-destroying rumours and from runs. The stability of the Canadian banking system (which stands in sharp contrast with the large number of bank failures in the UnitedStates during the recent years) may be regarded as principally resting upon five features. These are:

(a) The operation of the banking system under a single legislative authority;

(b) The freedom of the Canadian banker from the hampering influence of meticulous regulations in detail;

(c) The minimum of size and strength prescribed for Canadian banks in The Bank Act;

(d) The systematic and progressive training of bank executives, which is provided by promotion through the branch system; and

(e) The smooth and orderly distribution of banking funds according to local needs, which is also made possible by the branch system.

The purpose of this memorandum is to describe the working of the system, whose outline has briefly been presented, and not to make an exhaustive analysis of The Bank Act. In the pages that follow, the working of the system is analyzed under the following heads:

(1) Organization of the branch;

(2) Facilities for borrowing under Sections 86 and 88;

(3) The supervision and inspection of branches by Head Office;

(4) The organization of clearings between banks;

(5) The question of short-term money;

(6) Investment policies of the bank;

(7) The financing of the harvest;

(8) The financing of external trade;

(9) Provisions for expanding credit at need;

(10) The business of overseas branches.

In an explanation of the working of the banking system, it has been thought unnecessary to raise questions relating purely to currency policy.

1. ORGANIZATION OF THE BRANCH,

Both with a view to providing all of its existing clients with the completest possible banking service, and also with a view to securing the maximum of banking pr the bank, in normal times, is always on the lookout for opportunities of establishing new branches. Such branches may not yield an immediate profit, or even may, for some time, be sources of loss; butif there is a reasonable expectation of ultimate profit, the loss sustained initiall will be regarded as a proper investment of capital in them.

Owing to the fact that the bank may put into circulation its own notes (up to the amount of its fully paid-up, unimpaired capital, in the first place, and thereafter by deposit in the central gold reserves) it is a position to provide currency, in an inexpensive form, for pioneer communities; and thus to give banking service to many such communities, whose business would not warrant the location of branches in them otherwise.

By the right of bank note issue, as defined in Section 61 of the Bank Act, each established bank has been

enabled progressively to open new branches across Canada, as settlement has extended westward; with the result that there is, on an average, one branch bank to-day for every 3,350 people in the country.

The Canadian branch bank is organized in much the same manner as the British branch bank. In a large city branch, the staff may consist of one hundred persons or more; in a small country branch, the staff may consist of three or four, or even of two persons.

Before being appointed to the branch of which he is in charge, the manager has acquired a variedbanking experience in other parts of the Dominion or abroad; and this is his sa feguard, and a safeguard to the community that he serves, against the risk, which would otherwise be present, that he might take a purely local view of local problems.

All loans are made at the branches. Branch managers have authority to make loans up to certain maxima, without the need of reference to higher authority, for authorization of these loans. These maxima do not follow set rules, but are fixed for the branch managers individually. The maximum up to which a particular manager may loan depends upon his own experience and judgment, and upon the nature of the collateral offered for the loan.

Application for a loan beyond themaxinim set for him obliges the branch manager to refer the application (if the bank is a large one) to the District Supervisor under whom he operates, or (if the bank is a small one) to the Head Office. His reference is accompanied by statements as to the customer's position; as to the particulars of collateral offered; and such other information as is necessary to determine the quality of the risk. Upon

the granting of the loan (unless it is secured by readily saleable stocks or bonds) the borrower will customarily submit his balance sheet to the bank annually, or oftener, together with his Manufacturing or Trading, and Profit and Loss Accounts; and credits are reviewed annually, usually at the close of the borrower's fiscal year.

If the deposits of a branch should be in excess of the loans which it has made, together with the amount of cash required by that branch, the excess of deposits is credited to Head Office; and the funds are used at other branches where the loan requirements exceed the deposits; or else they are invested by Head Office in bonds, or otherwise employed to the best advantage; credit for the use of such funds being given to the branch from which they are drawn.

If the loans to be made by a branch, together with the amount of cash required in the till, exceed the deposits locally received by that branch, the necessary funds are drawn from other branches by Head Office, and made available to the branch requiring them; and that branch is accordingly debited for the use of the funds so borrowed

Each branch is expected to bear its due proportion of the overhead expenses of the bank; and the working of the branch is thus "costed", as though the branch were a self-contained unit bank, and its operations are reviewed accordingly.

Periodically (usually at intervals of six months or annually) the branch managermakes special reports to the District Supervisor, on all the loans that have become in any way doubtful; and submits with these reports his own estimate as to how much of the loans concerned

may be recoverable. These reports are reviewed by Head Office; and the doubtful loans are written off to Bad Debts, or adequate appropriations are set up accordingly.

2.- FACILITIES FOR BORROWING UNDER SECTIONS 86 & 88.

It is characteristic of a young and rapidly growing country, that many of its producers, distributors and manufacturers are operating with slender supplies of liquid capital. Canada is no exception to this rule, which holds with especial force on the frontiers of settlement, and in the neighbourhood of these frontiers.

It was primarily to meet the needs of such producers that Sections 86 and 88 of The Bank Act were enacted. In accordance with the general purpose of this memorandum, no space is devoted here to the historical background of these two Sections. Suffice it to say that borrowers in many lines of business have freely taken advantage of the facilities afforded therein; and that they have certainly made possible, during recent years, a rate of economic expansion in Canada which could not otherwise have been expected.

The present situation, in regard to the two Sections above mentioned, is as follows:

Section 75 (2c) of The Bank Act prohibits the bank from lending money against land or immovable property or ships or any goods, wares or merchandise except as authorized by the Act. The terms under which advances may be made against goods, wares and merchandise are prescribed in the two Sections above mentioned.

Under Section 86, the bank may acquire a warehouse receipt or bill of lading as security for any debt or liability, incurred in the ordinary course of its banking business. The Bank Act imposes no restriction as to the commodities which may be covered by security in such form. While it is customary to take a letter of hypothecation, covering the warehouse receipt or bill of lading, this is not essential; for the lodgment of the document itself in favour of the bank, or endorsed to the bank, vests in the bank all of the right and title of the previous holder or owner, to the goods covered thereby.

Security taken under Section 88 (for which special forms are prescribed in schedules to the Act) is of like effect; the situation being virtually that the borrower is permitted to act as warehouseman for his own goods. Advances under this Section, however, may be made only to certain classes of borrowers, and against certain commodities as follows:

1. - To any wholesale dealer in products of agriculture, the forest, quarry, mine or the sea, lakes and rivers or livestock or dead stock or products thereof, against these commodities.
2. - To a farmer against threshed grain grown on his farm.
3. - To a wholesale manufacturer against his raw materials and manufactured products, completed or in process of manufacture.
4. - To an owner, tenant or occupier of land, for the purchase of seed grain, against the crop to be grown therefrom.
5. - To a farmer or person engaged in stock-raising,

against his livestock.

A notice of intention to give such security is to be signed by the customer in the form of Schedule "F" to the Act, and is to be registered in the office of the Assistant Receiver General, in the Province in which the principal place of business of the customer is situated.

It is not open to a bank to acquire security by way of a bill of lading, warehouse receipt or an assignment under Section 88, unless such security is acquired at the time when the debt or liability is incurred, or unless at that time, in lieu of the security itself, the bank has a written promise that such security will be given. (In this connection, see Section 90).

Security in any of the forms mentioned herein gives to the bank a claim prior to that of the unpaid vendor of the merchandise concerned; and if goods are manufactured from those originally pledged the bank has the same right and titleto the manufactured goods, as it had to the materials assigned. The bank is given power of sale over the goods, subject to certain restrictions (which, however, the customer may consent to waive). Fortunately, in practice it is rarely necessary to exercise such power of sale.

The credit made available by these regulations has enabled dealers to pay cash for primary products - thus providing producers with a steady market - and has enabled manufacturers to pay wages and other current expense while goods are being processed. It has become an integral part of the credit machinery of Canada.

3. THE SUPERVISION AND INSPECTION OF BRANCHES BY HEAD OFFICE.

So far as the control of branches is concerned, questions of promotion and transfer are governed by Head Office through the Staff Department; and questions with regard to the physical equipment of branches by the Premises Department. These are, as a rule, routine matters. The direct control of banking operations in the branch is exercised by the General Manager through the Chief Superintendent of Branches, with his staff of District Supervisors; and through the Chief Inspector of Branches, with his staff of Inspectors.

Attention has already been drawn to the limits set upon the discretion of branch managers in making loans, and the necessity for referring to higher authority applications which are beyond the discretion of the branch manager.

Supervisors are empowered to pass upon loans up to certain limits, which vary in different banks. If the amount for which application is made exceeds the scope of the Supervisor's discretion, he in turn forwards the application to Head Office, together with the necessary information, and his own recommendation with regard to it.

By a system of returns and reports from branch banks, the Head Office is in possession at all times of full information, regarding all loans of $1,000 and over.

Furthermore, each branch is inspected annually (or more often, and at uncertain intervals, if this is considered necessary); and the Inspection Report

includes a list of all loans, small as well as large, with brief comments by the bank inspector regarding the smaller loans, and the manager's report regarding loans in excess of a stated amount.

The annual Inspection Reports, a bound volume, giving a complete review of the business of each branch, is placed in the hands of the Directors of the bank, as soon as it becomes available.

Furthermore, the books maintained in Head Office are examined annually, by auditors acting on behalf of the shareholders. The manner of appointment of these auditors, and the procedure to be followedby them, is prescribed in The Bank Act, Sections 53, 54, and 55.

The shareholders' auditors also examine balance sheets from the branches (certified by the branch manager and his accountant), and in addition, verify the cash at some of the larger branches. All investments are either examined personally by the shareholders' auditors or (in cases where this is not feasible) certificates of their existence are provided. The shareholders' auditors also make careful inqiry into all of the larger loans.

Besides the regularly prescribed examination by the shareholders' auditors, provision is made by statute (in the Bank Act, Section 56) for the regular inspection of the banks by the Inspector General of Banks. This officermakes an examination annually of the books of the bank at Head Office; and in addition makes his own investigation of the larger loans, reporting the results of his work to the Minister of Finance, by whom he is appointed.

4 - THE ORGANIZATION OF CLEARINGS BETWEEN BANKS.

It has already been explained (in Section 1, above) that each bank automatically re-distributes the funds deposited in its various branches so as to keep its assets employed fully, and to meet local demands for cash, without creating stresses in any money centre, no matter where such demands may be presented. For these purposes, the Canadian bank is a nation-wide system in itself.

Such an organization renders the problem of inter-bank clearings an exceedingly simple one. Daily clearings are simultaneously made between the same banks in thirty-two clearing house centres as follows:

In Nova Scotia: Halifax.

In New Brunswick: Moncton; and Saint John.

In Quebec: Montreal; Quebec; and Sherbrooke.

In Ontario: Brantford; Chatham; Fort William; Hamilton; Kingston; Kitchener; London; Ottawa; Peterborough; Sarnia; Sudbury; Toronto; and Windsor.

In Manitoba; Brandon; and Winnipeg.

In Saskatchewan: Prince Albert; Regina; Saskatoon; and Moose Jaw.

In Alberta: Calgary; Edmonton; Lethbridge; and Medicine Hat.

In British Columbia; New Westminster; Vancouver; and Victoria.

The results of the daily clearings are reported telegraphically from the regional centres, Vancouver, Winnipeg, and Toronto, to Montreal; and the net debits or credits of the day, for each of the Canadian chartered banks considered as a whole, are settled before one

o'clock on the same day, by the transfer of Dominion Notes in that city.

To make this transfer possible, the banks maintain in Montreal, by arrangement among themselves, a central clearing fund; each bank keeping in the fund a quantity of Dominion Notes, adequate to take care of any net debit, that is likely to arise in its case.

5-THE QUESTION OF SHORT TERM MONEY

A short term money market implies the existence of a relatively large amount of money seeking temporary investment, and flowing to and from the market as world-wide fluctuations in moneyrates direct. There is no such supply of short term money seeking investment in this country, nor is it the practice for balances to move in and out of this country, as they do elsewhere. The banker's acceptance, which is the most liquid medium in London and New York, is practically unknown in Canada. Short term government treasury bills are also unavailable in Canada.

The one institution in Canada which might possibly be described as a short term money market is the call loan market; but even in this instance, such a description would, in certain respects, be misleading.

Call loans are made to stock brokers and bond dealers, against approved securities with a suitable margin. The procedure followed is very simple.

The Canadian broker or bond dealer enquires of the bank, whether or not it is willing to make a loan against certain specified securities. If the securities offered meet with the bank's approval, and if the margin is accep-

table to the bank, it agrees to make the loan , and the broker or bond dealer lodges the security with the bank as collateral.

While these "call" loans in Canada are subject in law to short call, the Canadian security market is still so narrow, and there is such a complete absence of loanable funds (other than bank funds) available for the purpose of financing security purchases, that it is not expedient for the banks to treat as an immediate reserve the funds invested at call in this country, and on occasion to withdraw them without notice (as is regularly done in New York).

It is, accordingly, the practice of the Canadian banks not to treat as funds available for immediate use the monies that they lend at call in Canada ; but to provide for the necessary degree of liquidity in their ban operations, by making the necessary arrangements elsewhere

There is a plainly marked seasonal movement in the item "Call Loans in Canada", which reaches a minimum at the end of July, and a well-marked but short-lived seasonal maximum at the close of the year.

6. INVESTMENT POLICIES OF THE BANK

The investment portfolio of the bank consists largely of Dominion government and municipal securities, with a relatively small holding of sundry securities. The bank's investment policy is influenced by two factors-

(1) The bank wishes to provide employment for funds in hand, for which other satisfactory outlets are not at the time available. (This condition

applies mostly in times of reduced demand for commercial loans.)

(2) The bank, as a rule, holds a certain volume of investments throughout times of tight money as well as in easy money periods. (The Canadian bank's deposit business is largely on a time basis, and it regards itself as being justified in using a certain amount of those funds in high grade investments, that provide an attractive rate of interest.)

As an illustration of the first of these two points, it may be said that, during normal times, the size of the securities portfolio increases sharply during December and the following January, and is maintained on a scale greater than average from then onwards, until financing of the harvest movement again makes a serious demand upon the bank's resources.

In the same manner, there is a wide variation as between years of inactive business and years of great activity. The security holdings of the bank reach a maximum at or about the close of a depression, when they are always abnormally large. They tend to decline steadily during years of expanding trade, as the demand for commercial loans increases, and are apt to reach a minimum in the year of greatest activity. During the swing upwards, from stagnation of trade to great activity, the proportion of the bank's assets, which are invested in securities, appears, as a rule, to be reduced by about one-half; and vice versa.

The second of the points enumerated above is illustrated by the fact that, even at the peak of business activity, so considerable a quantity of

securities still remains in the bank's portfolio.

In addition to purchasing securities for its own account, the bank also deals in securities for sale to clients in two ways -

(1) As an ordinary commission broker, executing orders for clients to buy or sell securities, for which a moderate commission is charged.

(2) As underwriter or participant in originating syndicates on new issues. (For the most part these issues are government and municipal bonds, and a few corporate issues of the very highest grade.)

7 - THE FINANCING OF THE HARVEST

The greatest of the seasonal calls made upon the bank is that which arises in connection with the harvest. The bank participates on a large scale in the financing of the crop movement, pending the sale of the crop.

Wheat is, of course, the most important of the commodities to be financed; but considerable sums are also needed, in the aggregate, for the movement of oats, barley, flax and rye. What is here said with regard to the financing of wheat is true, within broad limits, of the financing of other cereals as well.

The farmer delivers his wheat to the Elevator Company (or to the Pool, as the case may be) and in most cases, either sells it outright or receives an advance upon it. This wheat is stored in one of the line or country elevators; and the Elevator Company (or Pool),

in order to pay the farmer, borrows from the bank, giving the wheat as security under Section 88 of The Bank Act, and receiving a demand loan therefor.

From the line or country elevator, the wheat is moved forward to lakehead or to seaboard; and the security given under Section 88 is exchanged for terminal warehouse receipts, or for lake or rail bills of lading. In the case of a parcel destined for export, the bills of lading issued on the shipment of the wheat are eventually surrendered, against payment for the grain by the purchaser abroad; and the transaction with the bank is thus completed.

The Winnipeg Grain Exchange provides the hedging facilities which are necessary, in order to protect borrowers and lenders against risk in these transactions.

A considerable part of the crop is not exported, but sold to milling companies in Canada; since, however, the financial procedure in connection with such wheat is essentially the same as in the case of sales for export, it need not be separately described.

8 - THE FINANCING OF EXTERNAL TRADE

As between the many countries with which the trade of Canada is conducted, and as between the many commodities which find a place in this trade, there is, of course, an infinity of difference in detail. In this place, however, it is only necessary to assemble the main considerations which apply to the Dominion's external trade as a whole.

Since there is no market for bills of exchange in Canada, or for bankers' acceptances, the general practice in the case of export trade is for the exporter, whether of cereal products or of any other commodity, either to draw upon the consignee and sell his bill outright to the bank (in which case it will be shipped to London or New York, as the case may be, for collection at maturity, or for negotiation), or to borrow against the security of the bill of exchange, which, in either case, comes into the possession of the bank. Or again, the arrangement may be that the consignee abroad opens a credit with the Canadian bank in favour of the Canadian exporter, and in this last-named instance also, the exporter secures payment from the bank after consigning his goods, upon surrender of the bill and documents.

Conversely, in the case of payment for imports into Canada, the importer may purchase from the Canadian Bank a draft in favour of the consignor abroad; or he may borrow on the security of the goods imported, or upon his general credit, and remit; or, by arrangement between the Canadian consignee and the consignor abroad, a credit may be established in the Canadian bank in favour of the consignor, who will in that case draw upon the Canadian Bank (either at sight, or with a specified time limit) and either sell the draft with documents to a branch of the bank abroad, or sell it to his own bank, and leave the final settlement as between his own bank and the bank in Canada.

In this connection, and for such elucidation of detail as may be desired, it is only fitting that

reference should be made here to the handbook, "Financing Foreign Trade", by Mr. Graham Towers of The Royal Bank of Canada, which is published by that institution.

It should be added that, by means of its branches abroad, the Canadian bank is endeavouring at all times to foster Canadian trade; and that, through these branches and otherwise, it has assembled and keeps up to date a large body of credit information, which is at the disposal of Canadian exporters.

9 - PROVISIONS FOR EXPANDING CREDIT AT NEED.

Previous to 1914, the only provision for the internal expansion of credit in Canada was that contained in The Bank Act, Section 61 (16), which provided for a seasonal expansion in the bank note issue, during the period of crop movement.

At other seasons (or during the harvest season, if this provision should be found insufficient), it was necessary to import gold from abroad, obtaining Dominion Notes therefor, and so to broaden the basis of the currency.

This might be done either by conversion of a part of the bank's resources in New York into gold; or by the sale in London of clean bank bills (to be financed at maturity through the shipment of grain bills from Canada), which made possible the purchase of New York exchange with funds obtained in London, and the conversion of the New York exchange thus obtained into gold, for remittance to Montreal or Ottawa, and for subsequent conversion into Dominion Notes, as above.

Since 1914, the provisions of the Finance Act have been available; and not only have these obviated very largely the necessity for financing movements of gold as described in the last preceding paragraph, but they have also, to no small extent, taken the place of the provision for excess bank note issue during the harvest season, to which reference has already been made above, in connection with Section 61 (16).

The procedure under The Finance Act is exceedingly simple; and, from the standpoint of the bank, it is admirabl convenient.

In accordance with this legislation, the bank applies annually to the Treasury Board for a credit, against which it undertakes to pledge securities of the character specified by The Finance Act. These securities are lodged with the Receiver General of Canada; and the bank is thereby enabled to obtain Dominion Notes, whenever it requires a temporary enlargement of its cash resources.

These are normally required in Montreal, which is the domicile of the central clearing fund. If, on the other hand, they should be required in Toronto or elsewhere they can immediately bemade available, upon telegtaphic instructions from the Receiver General in Ottawa, at the office of the Assistant Receiver General in the Province concerned.

Or again, if additional Dominion Notes of small denomination should be needed elsewhere in Canada (either for ordinary use as till money, or to meet a local "run"), it is possible under this system for the bank either in Montreal or Toronto (where most of the Dominion

notes of large denomination are stored in vaults,) to de with either of the Assistant Receivers General stationed in these cities legal tender notes of $50,000 and upward receiving in exchange, from the Assistant Receiver Gener in the Province containing the branch which requires the additional cash resources, a corresponding amount of Dominion Notes of small denomination.

It is difficult to conceive of an arrangement more elastic than this, or of one which would in practic operate more smoothly.

10 - THE BUSINESS OF OVERSEAS BRANCHES

At most of the branches which the bank maintains abroad, the nature of the business transacted is the sam as in its Canadian branches; i.e., subject to the laws of the country in which the branch is located, deposits are accepted from the public, and loans are made to agriculturalists, manufacturers, traders and others.

Normally, whether in good times or bad, the aggregate of the deposits in branches abroad exceeds the aggregate of the current loans made by these branches. Sometimes the aggregate of the deposits exceeds the combined total of call and current loans abroad; but (as will presently be seen) this is not invariably the case.

It is, of course, unlikely that in any given country beyond the borders of Canada, in which the bank maintains branches, there will normally be close correspondence between the aggregate of deposits and the aggregate of current loans. The same problem arises, of an excess of funds from depositors seeking an

outlet on the one hand, or of an excess of legitimate demands for loans over funds from depositors on the other hand, against which provision must be made. The bank accordingly maintains an arrangement, by means of which funds received from an excess of deposits in one country may be made available in another country to finance an excess of legitimate demands for loans; the whole of the transaction being concluded, without making any drain upon its banking resources in Canada. Clearances, as between branches of the bank in different countries abroad, will be made either through New York or through London, according to convenience.

In New York (which, both as the financial centre, and as the trade entrepot of the North American continent as a whole, has a special importance for the Canadian bank), the conditions are somewhat unusual. By the laws of the State, the operations of foreign banks (including those of Canada) are somewhat severely restricted. The Canadian bank in New York does not compete for deposits with other banks; it is not permitted to accept deposits from customers domiciled in New York. On the other hand, the New York branch of the Canadian bank does render a great variety of services to the institution as a whole - services which it would not be possible to obtain as adequately, from a correspondent bank.

Through the New York branch, money is put out on stock exchange collateral, at sharp call. While the interest return on such business is, as a rule, relatively low, funds are invested in this manner with entire

safety; can be converted into cash almost instantly; and can accordingly be consideredas, in effect, part of the cash reserve of the Canadian bank - but with this important difference, that they are revenue-producing.

The Canadian bank accordingly makes it a practice, under normal conditions, to maintain a part of its assets in the form of call loans in New York. The amount so maintained is subject to considerable variation, and for several reasons. In the first place, the rate of interest to be obtained varies very considerably; and from the standpoint of earnings, this is a consideration. In the second place, the balances held in New York, by branches of the bank beyond the limits of the American continent, fluctuate widely from time to time. In the third place, if funds are quickly required in Canada, for any purpose, the conversion into cash of loans at sharp call, and purchase of Canadian funds with the proceeds, is the quickest method of bringing in such funds from abroad; while on the other hand, at times when there is a sudden accumulation of cash at branches of the bank in Canada, which is likely to militate against the bank's earnings (as after the harvest movement for example), the readiest means by which such cash resources (in excess of those actually required for the conduct of the bank's business in Canada) can be converted at a moment's notice into earning assets, is by lending them at call in the New York money market.

In addition to the banking operations conducted by the branches abroad, these branches (as has already been mentioned) undoubtedly facilitate Canada's export trade.

It should be added that they also facilitate the bringing into Canada of new industries.

CONCLUSION

In the foregoing pages, an endeavour has been made to describe objectively the workings of the Canadian banking system, in at least some of its main aspects. The task has been deliberately limited to one of description. No attempt has been made, either to point out imperfections in the system, with regard to which the bankers might wish to make representations, or to defend the system against criticisms which have been passed upon it from time to time, by critics who are not themselves bankers.

At this point, however, a single broad generalization may perhaps properly be made on the system, as it serves the commercial needs of the country: to theeffect that, as the result of the many changes which have been made during the past two generations (changes which have already been des ribedin another memorandum placed before the Royal Commission), it has provided Canada with a financial structure which is at the same time extremely strong, and singularly flexble; with a structure well adapted to the needs of a country, whose interest in external trade is second to that of no other, noteven excepting Britain; and no less well adapted to the needs of a country, which has for centuries been pushing its frontiers westward and northward into the wilderness, as it must continue to do for many years to come.

THE CHAIRMAN: Well, that will conclude the first public sitting of this Commission, and we propose to adjourn now to half past two o'clock, when we will meet with the Bankers' representatives for the purpose of obtaining some additional information on technical topics which are not of general public interest.

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The Commission adjourned at 12.55 P.M.
to resume, in private, at 2.30 o'clock P.M.

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(Page 120 follows)

ROYAL COMMISSION ON BANKING AND CURRENCY

THE RIGHT HON. LORD MACMILLAN, P.C., K.C., Chairman

SIR THOMAS WHITE, P.C., K.C.M.G. SIR CHARLES ADDIS, K.C.M.G.

BEAUDRY LEMAN, B.Sc., C.E. HON. J.E. BROWNLEE, K.C., M.L.

B.J. Roberts, Esq.,
Secretary

A.F.W. Plumptre, Esq.,
Assistant Secretary

PUBLIC SITTING

Senate Railway Committee Room
Parliament Buildings

OTTAWA, Ontario

9th August, 1933.

SECOND DAY

Appearances:

J. A. McLeod	President, The Canadian Bankers' Association
H. B. Henwood	Bank of Toronto
Jackson Dodds	Bank of Montreal
S. H. Logan	Canadian Bank of Commerce
M. W. Wilson	Royal Bank of Canada
Henry T. Ross	Secretary, The Canadian Bankers' Association
W. C. Clark	Deputy Minister of Finance
C. E. S. Tompkins	Inspector General of Banks
Prof. Gilbert Jackson	Advisor

Robert Brydie,
Official Reporter

Parliament Buildings, Ottawa,
August 9, 1933.

The Commission met at 11 a.m.

THE CHAIRMAN: This morning we have the advantage of the attendance of Dr. Clark, the Deputy Minister of Finance. He is good enough to assist us by placing before us for purposes of record the various enactments relating to Canadian Banking and other official material which it is desirable we should have. I have no doubt that he will be able to give us an exposition of the special relations which exist in Canada between the government department of which he is a member and the banking system. It would be very useful I think for us to have that before us as there are some specialties in the banking business which are unique. It might be well, Dr. Clark, for the purposes of record if we had in the first instance the advantage of knowing of your previous experience. Would you be good enough to tell us what experience you have had in dealing with financial matters, both theoretical and practical.

MR* CLARK: I was Professor of Economics at Queens University for a number of years. Later I was engaged in investment banking in Chicago and New York, and since November last I have been Deputy Minister of Finance.

THE CHAIRMAN: May I take it that the deputy minister under the Canadian constitution is a permanent official?

MR. Clark: Yes.

THE CHAIRMAN: Taking practically the same part as the Under-Secretary of State takes with us in our con-

stitution?

MR. CLARK: Quite so.

THE CHAIRMAN: You will yourself be in a position to know how best you can assist us. Have you prepared any documents or are you prepared to proceed by way of question and answer?

MR. CLARK: I have a number of documents and statements that I would like to present with perhaps an occasional comment.

THE CHAIRMAN: Take your own way and take all the time you want, and if we want information on any topic as you proceed we will ask for it.

MR. CLARK: My Lord and Gentlemen, you have asked for a statement of the contacts between the government and the banking and monetary system in Canada. These contacts, it seems to me, can be classified on the basis of the functions which are assigned by the Bank Act or other statutes to the Governor in Council, in the first place; in the second place functions that are assigned to the Treasury Board; and thirdly, the functions that are assigned to the Department of Finance or to the Minister of Finance.

THE CHAIRMAN: Are you able to supply us with copies of the precis so that we can follow it as you proceed?

MR. CLARK: I have one or two copies. I will give you one set of this material, my lord.

THE CHAIRMAN: Are copies available for the other members?

MR. CLARK: We have not had time.

THE CHAIRMAN: We will get them reproduced so that they may be available.

MR. CLARK: First I wish to present a statement of the functions of the Governor in Council under the Bank Act:

FUNCTIONS OF GOVERNOR IN COUNCIL
UNDER THE BANK ACT.

Under the Bank Act the following functions are assigned to the Governor in Council:

1. To fix the rate of interest, not exceeding five per cent per annum, to be paid by banks to the Minister on "excess circulation", as defined by subsection 16 of section 61.

THE CHAIRMAN: What you call the "excess circulation" is the 15 per cent margin which is permitted for seasonal fluctuations?

MR. CLARK: Yes. Continuing with the statement:

2. To appoint, on the recommendation of the Minister of Finance, the Inspector General of Banks, and to fix the salary to be paid to such official. (Section 56.)

3. To approve, upon recommendation of the Treasury Board, agreements for the purchase of the assets of a bank by another bank. (The procedure to be followed in this connection is laid down by Sections 99 to 111 inclusive and the approval of the Governor in Council is the final formality necessary to give full effect to the sale and purchase of the assets of a bank. Under section 104 approval of the agreement may carry with it approval of any increase in the capital stock of the purchasing bank

made necessary to provide for the payment of the shares of such bank to the selling bank.)

THE CHAIRMAN: It is under that system that the various recent mergers have taken place?

MR. CLARK: Yes.

COMMISSIONER LEMIN: Can you authorize an increase of capital of the purchasing bank beyond the authorized capital in the charter of that bank?

MR. CLARK: Not beyond the authorized capital in the charter of the bank. If I may continue:

4. To determine, on the report of the Treasury Board, the rate in Canadian currency at which bank notes issued "in any British Colony or possession other than Canada" shall circulate as forming part of the total amount of notes in circulation of the bank, and the rate at which dollar notes of the currency in use in such colony or possession shall be redeemed in the event of a bank ceasing to have a branch or agency therein. (Section 62.)

That is not so important as it seems to sound. It is primarily for record and tax purposes. Continuing the statement:

5. To direct payment, on the report of the Treasury Board, of claims to monies paid to the Minister as unclaimed upon the winding up of the business of a bank. (Section 115).

6. To direct, on the report of the Treasury Board, the remission, or payment to any person, of penalties imposed upon a bank or person for any

violation of the Act. (Section 168.)

THE CHAIRMAN: Constitutionally the Governor in Council really means, I suppose, effectively the cabinet, does it not?

MR. CLARK: Yes.

THE CHAIRMAN: The Governor, of course, is a constitutional person and acts on the advice of his ministers for the time being?

MR. CLARK: Yes.

THE CHAIRMAN: So this really means in effect that these functions are assigned to the government of the day?

MR. CLARK: Yes. These are the special functions assigned in the Bank Act to the cabinet.

THE CHAIRMAN: I follow you.

MR. CLARK: Turning to the Treasury Board and its functions, I have first a statement about the Board itself:

THE TREASURY BOARD

The Treasury Board consists of the Minister of Finance and five other cabinet ministers nominated from time to time by the Governor in Council. At present the five nominated members are the Minister of Justice, the Minister of Trade and Commerce, the Minister of Railways and Canals, the Minister of National Revenue and the Minister of Marine and Fisheries. The Minister of Finance acts as Chairman, and the Deputy Minister of Finance is the ex officio secretary.

The Board acts - I quote from the Act - "as a committee of the King's Privy Council for Canada, on all

matters relating to finance, revenue and expenditure, or public accounts, which are referred to it by the Council, or to which the Board thinks it necessary to call the attention of the Council", and has "power to require from any public department, board, officer or other person, bound by law to furnish the same to the government, any account, return, statement, document, or information which the Board deems requisite for the due performance of its duties."

Both the Bank Act and the Finance Act assign to the Board important functions in connection with the operation of the Canadian banking system.

THE CHAIRMAN: That really means that the cabinet selects five of its own members as the Treasury Board?

MR. CLARK: Yes.

THE CHAIRMAN: The Minister of Finance acts as chairman of the Treasury Board, I observe, and you act as ex-officio secretary. Naturally he would be the dominant person in that committee. It is a committee of the cabinet in effect?

MR. CLARK: Yes.

THE CHAIRMAN: Again stating it in language with which I am more familiar, the Minister of Finance is really the Chancellor of the Exchequer of the Dominion?

MR. CLARK: That is true. Under the Bank Act a number of special functions are assigned to the Treasury Board. A number of them are of minor technical importance; I shall read a few, and then I shall refer more particularly to the Finance Act functions of the Board. Under the Bank Act the functions of the Treasury

Board are as follows:

To determine whether or not the requirements of the Act have been complied with by newly incorporated banks, with full authority to pass upon their application for permission to commence business. (Sections 15-17.) (The approval of the Treasury Board to the resumption of business by a suspended bank is also necessary - Section 140.)

To pass upon applications for the approval of shareholders' by-laws increasing the capital stock of a bank. (Section 32.)

To deal with applications for the approval of by-laws reducing a bank's capital stock. (Section 34.)

To release, subject to the provisions of this section the amount at credit of a bank in the Bank Circulation Redemption Fund if such bank is wound up "by reason of insolvency or otherwise." (Section 67.)

To make rules and regulations with respect to the payment out and receipt of amounts due the Bank Circulation Redemption Fund, the accounts to be kept thereof and the management of the fund generally. (Section 68.)

The Board may make regulations providing for the disinfection and sterilization of bank notes (and Dominion notes) before reissue thereof to the public. (Section 71.)

To grant extensions of time for the holding of, real estate not required for a bank's own use, provided the whole period during which such properties may be held does not exceed twelve years. (Section 82.)

To prescribe regulations under which quarterly returns of interest and discount rates charged by the banks shall be submitted. (Section 91.)

To pass upon applications for the approval of agreements for the purchase of the assets of a bank by another bank and, if approved, to recommend to the Governor in Council for final approbation. (Section 106.)

To review and, if approved, to recommend to the Governor in Council the payment of claims to monies paid in to the Minister as unclaimed upon the winding up of the business of a bank. (Section 115.)

To deal with applications for the approval of by-laws, rules and regulations of the Canadian Bankers' Association, orany amendments or repeal thereof, which by-laws, rules and regulations shall have no force or effect until approved by the Board. (Section 124.)

To report to the Governor in Council upon the advisability of the remission, or payment to any person, of penalties imposed upon a bank or person for any violation of the Act. (Section 168.)

Turning to the important functions assigned to the Board by the Finance Act particularly, the Board is charged specifically with responsibility for determining the rate of interest to be paid by the banks upon advances made under the Act, and is empowered to make regulations with regard to such advances, the terms and conditions affecting the deposit of securities and all other provisions necessary to give effect to the provisions of the Act.

While the Finance Act was mentioned yesterday, it might be desirable now to give a little more detailed statement in regard to its history and its present operation:

Historical Resume

The origin of the Finance Act dates back to the emergency measures adopted at the outbreak of war. In the early days of August, 1914, many "runs" upon the banks took place throughout the country, withdrawals of gold in Montreal and Toronto were particularly heavy and in general an atmosphere of incipient financial panic prevailed. On August 3rd an order in council was passed providing, among other things, for advances to be made to the chartered banks and to the savings banks to which the Quebec Savings Banks Act applies in the form of Dominion notes against deposits made by the banks with the Minister of Finance of such securities as might be approved by the Minister. At the session of parliament held in the month of August, 1914, the first Finance Act was passed; it confirmed the issue of notes made under the provisions of the said order in council and provided for authorization by proclamation of similar advances in case of war, invasion, riot or insurrection, real or apprehended, and in case of any real or apprehended financial crisis.

Such proclamation was issued on September 3, 1914, and, henceforth, throughout the war and the post-war period extensive use was made of the Act. The following tabulation shows the maximum advances

made under the Act in each of the first ten years of its operation.

Month	Maximum advance in each year
November 1914	$ 12,767,500
January 1915	10,720,000
February 1916	2,777,135
October 1917	52,170,000
November 1918	116,500,000
November 1919	112,957,000
November 1920	123,689,025
January 1921	1[illegible]8,707,961
January 1922	[illegible]0,619,770
October 1923	40,020,000

These amounts are the maximum amounts outstanding at the end of any particular month. Continuing with the statement:

> An Act passed in 1919 provided for the continuance in force of the proclamation made on September 3, 1914, "until two years after the conclusion of peace on termination of the present war." This explains the continued operation of the Act until 1923.

Apparently because of the extensive use which has been, and was being, made of the Act, it was decided in 1923 to make the Finance Act mechanism a permanent feature of our financial system. In introducing the new legislation, Mr. Fielding, the [illegible]en Finance Minister, made the following brief explanation of its purpose:

> "The Act (Finance Act) was adopted as a war measure, and no doubt was exceedingly useful in the financial operations during the war. It may be said that the war being over we no longer have any need for the act, but experience has shown that the act is still required; indeed, I am inclined to think that something of the kind will have to become almost a permanent part of our financial system."

The debate in the house was very short, but there was a statement by Sir Henry Drayton approving in somewhat the same language the statement that was made by Mr. Fielding.

COMMISSIONER LEMAN: And Sir Henry Drayton at that time was representing?

MR. CLARK: He had been Minister of Finance in the previous administration, and on this particular occasion he was speaking as the financial critic of the opposition.

COMMISSIONER LEMAN: That is what I wanted to bring out, that both parties took the same view.

THE CHAIRMAN: Non-contentious.

MR. CLARK: The debate was not long, covering only three or four pages in Hansard. Continuing with my statement:

> This Finance Act of 1923 provided that at any time when there is no proclamation in force under the authority of the Finance Act of 1914, the Minister of Finance may make advances to the chartered banks and to the savings banks to which the Quebec Savings Bank Act applies by the issue of Dominion notes upon the pledge of approved securities deposited with the Minister. The act gives a list of approved securities,-- this is a new feature -- limits the duration of advances to one year, and authorizes the Treasury Board to fix the rate of interest and make regulations with regard to advances, the terms and conditions affecting the deposit of securities and all other provisions necessary to give effect to the

provisions of the Act.

The Acts of 1914 and 1923 are consolidated in Chapter 70 of the Revised Statutes of Canada, 1927.

SIR THOMAS WHITE: Does the preamble of that act indicate the purpose for which the advances shall be used or obtained?

MR. CLARK: Do you mean the 1923 Act?

SIR THOMAS WHITE: Yes.

MR. CLARK: I think not, Sir Thomas.

HON. MR. BROWNLEE: Have you copies of the different acts?

MR. CLARK: I will submit them.

SIR THOMAS WHITE: What I had in mind was this. Whether it is in the preamble or not it was certainly considered at the time that the purpose of that Act was to enable the banks to meet the agricultural and commercial needs of the community; in other words, that the advances obtained under the Act would not be used, for example, for the purpose of financing let us say speculative investments.

THE CHAIRMAN: Is the purpose stated in the original Act?

MR. CLARK: It may be there, but I do not think the purpose is stated in that particular way in the preamble to that act.

THE CHAIRMAN: That rather re-emphasizes what I said yesterday. I am very anxious to see the actual statutes in the form in which they were successively passed rather than in the consolidated form.

MR. CLARK: There are two sections, sections 13 and

14, referring to advances based on commercial bills, so to speak, where reference is made to a purpose. I will read section 13:

> The bank shall satisfy the said trustees before an advance is made by the Minister that any promissory notes or bills of exchange described in paragraph (e) of section five of this Act, offered in pledge, have in fact been issued or drawn, or the proceeds have been used or are to be used in the first instance, in producing, purchasing, carrying or marketing grain or goods, wares and merchandise within the meaning of these words in the Bank Act.

Now, if I may continue, a word as to operation:

Operation

Advances under the Finance Act are authorized by the Treasury Board on the formal application of the bank, enumerating the securities to be tendered as collateral. The application, a copy of which is attached, is in the form prescribed by the Treasury Board. As all advances under the Finance Act become due on May 1st of each year, it has cometo be the practice for the banks to submit to the Treasury Board, just prior to that date, their applications for the authorization of advances to cover anticipated or possible requirements during the whole of the ensuing year, including the renewal of outstanding amounts. By Treasury Board minute, authorization is given for advances to the several banks of such amounts as the Treasury Board may deem advisable.

This was a sort of standing credit or maximum authorization. Continuing:

This practice, however, does not preclude a bank

from making during the course of the year other applications which changing conditions may require nor does it prevent the Treasury Board from lowering the standing credit or maximum authorization allowed to any bank if such reduction should be deemed desirable.

The formal application contains a schedule giving a description of the securities to be deposited, the bank's valuation of such securities and the valuation placed upon them by the Treasury Board as the basis for the advance. According to a Treasury Board minute of May 23rd, 1933, the margin by which the different classes of securities may exceed the amount of the advance are as follows:

Type of Security	Margin Required
Dominion of Canada securities	None
Securities guaranteed by the Dominion of Canada, British Government securities and short term provincial securities and public securities of the Government of the United States	10% of market value
Other securities of or guaranteed by provinces	15% of market value
Canadian municipal securities	20% of market value
Assignments secured by documents covering grain, flour, cereals and feed	25% of the amount of the loan
Commercial paper endorsed by the banks to the order of the Minister of Finance	25% to 35% as the Minister may determine.

The valuations submitted by the banks are checked by departmental officials against current market quotations and such other information as is at their

disposal, including the valuations placed upon insurance, trust and loan companies' investments by the Superintendent of Insurance. The Minister of Finance may also request the trustees of the Central Gold Reserve to make a valuation of and recommendation as to the amount which in the judgment of the trustees may properly be advanced on any deposited securities.

Within the scope of the authorization given by the Treasury Board and upon deposit and pledge of the approved securities, the Department makes loans from time to time upon the written or telegraphic request of the bank. Advances may be made at Ottawa, or at the office of any Assistant Receiver General, at the bank's option. In practice, all of the advances are now made at Montreal.

SIR THOMAS WHITE: When you speak of practice, are you going to tell us as to the class of security that is actually lodged for convenience? As I understand it, you do not get many commodity bills authorized as collateral, but the banks having very large amounts of government securities bring them to the Department of Finan and pledge them for convenience, and the advance is really upon them for the most part. I do not suppose you have many advances upon the security, let us say, of commodity bills.

MR. CLARK: I think it is true that we have not made any such advances since 1926 or 1927. I think 1926 was the last year.

SIR THOMAS WHITE: In other words the banks have

always had sufficient government securities to lodge them, no matter what purpose they might have in view or for what purpose the money might be used. If they borrowed upon government securities, that does not necessarily mean that they borrowed the money to buy government securities at all, but it was for the purpose of making the banks liquid for the general commercial purposes of the bank. That method is opposed to the method in Great Britain of taking commodity bills. Is that right?

MR. CLARK: Quite so.

THE CHAIRMAN: And they take up to the full 100 per cent of Dominion government securities?

MR. CLARK: Yes. Those figures will be presented to you in detail. My recollection is that of the $220,000,000 of securities now deposited, $150,000,000 or more are Dominion government securities.

SIR THOMAS WHITE: And the others are provincial?

MR. CLARK: Well, provincial and C.N.R.

SIR THOMAS WHITE: As opposed to commodity bills?

MR. CLARK: Yes; no commodity bills at the present time.

SIR THOMAS WHITE: Any bankers' acceptances if there are any in the country?

MR. CLARK: None at all. To continue with the statement:

> Where, as is frequently the case, securities are kept on deposit with the department, advances are obtainable immediately. As soon as an advance or a repayment is made, the department is advised by telegram

and the receipts are sent forward by mail. Should advances in excess of the standing credit be required, special application must be made to the Department.

The form of pledge agreement to be deposited with the collateral is prescri by the Treasury Board. (See Appendix "A".) On the form are printed regulations, terms and conditions applicable to all advances under the Finance Act, covering such matters as rate and payment of interest, repayments, release of securities and procedure on default. Provision is also made for the repayment of all advances by the 1st of May following the advance.

As already stated, interest upon Finance Act advances is payable at such rates as are fixed by the Treasury Board and is collected quarterly at the end of May, August, November and February in each year.

Since 1914 the rates of interest have varied as follows:

Period	Rate
1914 to November 1,1924	5% except that under terms of order in council of October 20, 1917, when Imperial Treasury Bills were deposited the authorized rate was 3½%.

COMMISSIONER LEMAN: I note that you use the expression "order in council." Should it be order in council or Treasury Board.

MR. CLARK: When the order in council of October 20, 1917, was passed, providing for the deposit of Imperial Treasury

Bills as approved security, the rate was 3½ per cent against that particular deposit.

COMMISSIONER LEMAN: That must have been confirmed by the Treasury Board.

THE SECRETARY: The first Act provided that the rate of interest should be fixed by the governor in council.

COMMISSIONER LEMAN: I wanted to have that point made clear.

SIR THOMAS WHITE: That was for the purpose of providing money for the Imperial government against the lodging of Imperial government securities, for the purchase of munitions and foodstuffs in Canada during the war.

MR. CLARK: Contrasting with the table showing the rates of interest since 1914:

Period	Rate
November 1,1924 to Nov.1,1927	4¼%
November 1,1927 to Dec.1,1927	4%
December 1,1927 to June 8,1928	3¾%
June 8,1928 to September 1,1928	5% except on advances against 4% Treasury notes when authorized rate was 3¾%
September 1,1928 to Oct.26,1931	4½% except on advances against 4% Treasury notes when authorized rate was 3¾%.
October 26,1931 to May 2,1932	3%
May 2,1932 to May 1,1933	3½% except from October 15,1932,to November 3, 1932, when on advances secured by 4% Treasury Bills dated October 15, 1932, the rate was 2½% and from November 1, 1932, on advances secured by 4% 2-year notes dated November 1, 1932, when the rate was 3%.

May 1,1933 to date	2½% except on advances secured by 4% 2-year notes dated November 1, 1932, for which the rate is 3%.

Statistics

Attached is a statement showing the advances under the Finance Act -- High and low by months -- from the 1st of January, 1927, to date; also a statement showing the daily average advances by months from the same date.

SIR THOMAS WHITE: Who recommends to the Treasury Board any change in rate?

MR. CLARK: In practice I would say that such recommendation would be made by the Minister of Finance.

SIR THOMAS WHITE: Is there anything to show the considerations that have influenced the minister or the Treasury Board at the time as to the rate?

MR. CLARK: There is nothing to show except the record itself of the changes that have been made from time to time during that period. That is the only evidence you have as to the considerations which affect the Treasury Board.

THE CHAIRMAN: I think there is a number of points on which we want to inquire pretty closely, and there may be some matters which you wish to give us confidentially. I think one would like to have first of all the scheme, and then we might ask you how you operate it, and what in practice you do; that is, what is the office routine by which these matters are dealt with. I think that this table of figures accompanying your statement, showing the advances made under the Finance Act from 1927 to 1933 inclusive and the maximum and minimum by

months might go on the record. It would be very useful.

MR. CLARK: Yes.

THE CHAIRMAN: Also the classification of the securities which have been deposited. It would be very interesting to have that also.

MR. CLARK: That will be submitted to the Commission.

THE CHAIRMAN: Also the table showing the daily average advances might go on the record:-

(Table follows.)

ADVANCES UNDER FINANCE ACT - HIGH AND LOW BY MONTHS

FOR YEARS 1927-1933 INCLUSIVE

1927	HIGH	LOW
January	11,500,000	Nil.
February	16,500,000	Nil.
March	12,500,000	8,500,000
April	20,800,000	8,500,000
May	20,800,000	7,500,000
June	15,950,000	8,700,000
July	17,050,000	12,950,000
August	29,950,000	15,150,000
September	22,750,000	10,950,000
October	50,750,000	10,750,000
November	50,750,000	10,500,000
December	52,500,000	7,500,000
1928		
January	52,500,000	10,000,000
February	28,000,000	7,500,000
March	56,000,000	14,000,000
April	56,000,000	19,500,000
May	47,000,000	15,250,000
June	57,250,000	29,750,000
July	64,130,000	45,750,000
August	64,130,000	47,150,000
September	54,630,000	38,630,000
October	75,550,000	41,150,000
November	66,550,000	42,050,000
December	72,550,000	50,050,000
1929		
January	76,500,000	50,000,000
February	71,500,000	45,500,000
March	85,500,000	51,000,000
April	84,000,000	51,500,000
May	75,550,000	41,500,000
June	88,700,000	55,550,000
July	88,700,000	50,950,000
August	77,400,000	55,200,000
September	79,400,000	48,400,000
October	90,150,000	54,150,000
November	112,900,000	56,150,000
December	112,900,000	42,700,000
1930		
January	82,700,000	51,700,000
February	44,700,000	11,700,000
March	50,200,000	15,450,000
April	49,700,000	17,200,000
May	45,200,000	14,700,000
June	49,700,000	15,700,000
July	49,700,000	15,950,000
August	24,200,000	700,000
September	24,200,000	700,000
October	22,700,000	700,000

ADVANCES UNDER FINANCE ACT - HIGH AND LOW BY MONTHS

FOR YEARS 1927-1953 INCLUSIVE

1930 (cont'd)	HIGH	LOW
November	38,700,000	700,000
December	21,000,000	614,000
1931		
January	21,000,000	1,500,000
February	12,500,000	1,000,000
March	8,500,000	Nil
April	11,000,000	Nil
May	10,500,000	Nil
June	13,500,000	500,000
July	13,500,000	500,000
August	6,500,000	500,000
September	19,500,000	1,000,000
October	24,500,000	9,500,000
November	66,500,000	17,500,000
December	49,000,000	8,750,000
1932		
January	49,000,000	27,500,000
February	36,500,000	15,000,000
March	32,000,000	15,500,000
April	27,500,000	15,000,000
May	29,600,000	10,500,000
June	40,500,000	17,500,000
July	40,500,000	24,500,000
August	29,000,000	15,500,000
September	25,000,000	10,000,000
October	27,500,000	12,000,000
November	65,144,000	27,544,000
December	57,488,000	35,944,000
1933		
January	57,488,000	37,444,000
February	41,944,000	35,244,000
March	48,444,000	35,944,000
April	39,344,000	36,944,000
May	42,344,000	37,444,000
June	51,944,000	40,844,000
July	51,644,000	46,244,000
August		
September		
October		
November		
December		

FINANCE ACT

	1927	1928	1929	1930	1931	1932	1933
January	$1,420,000	$14,120,000	$57,642,300	$41,680,800	$6,153,800	$31,020,000	$40,373,200
February	2,187,500	12,460,000	49,604,200	18,595,800	2,187,500	22,556,000	33,656,500
March	6,425,900	19,407,400	57,740,000	21,488,500	903,800	17,700,000	37,110,700
April	10,185,400	23,276,100	57,520,000	22,470,800	3,083,300	18,465,500	37,500,500
May	11,578,000	31,386,500	54,878,800	24,950,000	3,100,000	13,844,000	39,370,900
June	12,120,000	35,830,000	60,747,900	22,158,300	1,660,000	25,040,000	43,520,000
July	14,654,200	51,380,700	50,411,500	24,430,800	2,346,200	28,748,000	48,552,000
August	15,483,300	52,194,800	60,029,600	8,881,500	1,430,800	18,633,300	
September	14,070,000	42,838,300	55,941,700	2,580,000	3,440,000	13,040,000	
October	14,711,500	47,335,200	61,601,900	9,477,800	18,269,200	13,764,000	
November	14,666,000	49,770,000	68,120,000	3,741,700	22,000,000	36,575,900	
December	12,826,900	39,591,700	52,316,000	2,858,600	20,355,800	39,699,500	

THE CHAIRMAN: These forms which have been filed by you (appendix "A") are useful. We will have some questions to ask as to the actual routine after you have completed your general statement. You have dealt with the governor in council, the Treasury Board, and with the special part which the Finance Act mechanism plays in your system. What is the next point?

MR. CLARK: That brings us to the functions of the Department of Finance and of the Minister of Finance.

THE CHAIRMAN: May I ask a question which has not been alluded to hitherto? Of course, banking and currency are matters reserved to the Dominion parliament under section 91 of the British North America Act of 1867. I do not know whether this is a matter that I should go into at this stage but one is of course very familiar with the division of legislative powers in Canada between the Dominion parliament on the one hand and the provincial legislatures on the other. While banking and currency are specially reserved for the Dominion parliament, the provincial legislatures have extensive powers, have they not, in dealing with all questions of property and civil rights?

MR. CLARK: Yes.

THE CHAIRMAN: What strikes one is this, that legislation dealing with topics which are within the competence of the provincial legislatures may at times have an effect upon the general financial situation of Canada.

MR. CLARK: That is true.

THE CHAIRMAN: Which would have to be taken into

account in exercising the legislative powers relating to banking and currency. This is a very large topic, but I want to get in my mind what relationship there is between the Dominion legislation on banking and currency, on the one hand, and provincial legislation upon cognate topics and dealing with interests which are affected by banking and currency. Is there any means of co-ordinating these two matters so that an economic policy for Canada as a whole may be carried out in the interests of the whole community, or is each provincial legislature left to work out its own methods?

MR. CLARK: I would prefer on that point, my lord, not to give evidence. I think if necessary it will be possible to get a witness from the Department of Justice, for instance, to discuss that matter.

THE CHAIRMAN: I do not want myself to go very much into that topic because after all it is a purely legal question, but it has its economic aspect as well as the legal aspect.

SIR THOMAS WHITE: It is one of the most important questions before us.

THE CHAIRMAN: What strikes me, looking at it, is that in a scheme of legislation for the Dominion and the provinces there must necessarily be some interaction between the two things, and while the Dominion has exclusive powers to legislate in matters of banking and currency, must do so to some extent in relation to the powers of provincial legislatures which by their action may create situations with which the Dominion parliament, on the other hand, has to deal. These are very large constitu-

tional topics, and in view of my position in another sphere of activity perhaps I should not approach them too closely, but sometime I should like to have some information as to the interaction of provincial financial legislation and Dominion financial legislation.

SIR THOMAS WHITE: Take a very simple illustration, not to take time unduly. The provincial governments and municipalities created under provincial authority can issue securities, let us say, in New York or outside of Canada. That has an immediate bearing on the question of currency.

THE CHAIRMAN: That illustrates exactly what is in my mind.

SIR THOMAS WHITE: On the other hand the provincial parliament is equally supreme with the Dominion parliament within its legislative jurisdiction, and the provinces are very jealous of their provincial rights. It is a fact, however, that provincial governments and municipalities, and corporations for that matter throughout Canada having the right to issue securities possibly outside of Canada has an effect upon currency, which by the British North America Act is reserved to the Dominion parliament.

THE CHAIRMAN: That illustrates exactly what had occurred to me, that the parliament charged with legislation on banking and currency might find itself controlled to some extent or influenced to some extent in the legislation which it passed by what was occurring in the various provinces of Canada, where each ppovincial legislature is autonomous, with its own powers and its

own financial policy. This, of course, as I say is a very large question, but we are dealing here in this legislation with Canada as a whole and in dealing with Canada as a whole you cannot disregard the fact that the policies of the various provinces may have some effect on the financial and economic position of the country as a whole over which the Dominion Parliament has jurisdiction.

SIR THOMAS WHITE: That arose during the war.

THE CHAIRMAN: I am sure it must have. You must accept that because it is the constitution of Canada. We want to ensure if possible that the working of the banking system may inure to the benefit of the whole of Canada having regard to these autonomous powers of the provinces.

SIR THOMAS WHITE: And of course those powers must be very fully respected.

THE CHAIRMAN: Entirely so. I am fully alive to that in another capacity. I just want to raise that topic. I quite understand that it is not necessarily in your Department, Mr. Clark, although you must yourself in your survey have regard to what is happening in the provinces.

MR. CLARK: Quite so, but I would prefer that any discussion of that topic be left to --

THE CHAIRMAN: Perhaps later on we might have the Minister of Justice deal with these topics for our assistance because I can see that it may be of some moment to us. I just wanted to bring that question to the surface for the moment and leave it.

MR. CLARK: In a discussion of the functions of the Department of Finance it probably is desirable that I should give a brief review of the Canadian currency system. I have here a brief memorandum which I do not think it is necessary for me to read, particularly that part dealing with coinage.

THE CHAIRMAN: You should tell us what is legal tender in Canada.

MR. CLARK: That is given in this memorandum, and perhaps I had better read it.

THE CHAIRMAN: If it is not too long.

MR. CLARK: The memorandum reads as follows:

THE CANADIAN CURRENCY SYSTEM

(a) Coins

Prior to confederation a variety of moneys circulated in British North America, of which French coinage, the Spanish dollar, sterling and York currency were the most important. The growing volume of trade between Canada and the United States resulted in a tendency toward a decimal coinage and, in 1853, a measure was passed providing for the adoption of a decimal currency with a dollar equivalent to the United States dollar, though the British sovereign was made legal tender at $4.86 2/3. The Act of 1857 requiring all government accounts to be kept in dollars and cents marks the formal adoption of decimal currency by the province of Canada.

By the Uniform Currency Act of 1871,

this decimal currency was extended throughout the Dominion, the British sovereign was made legal tender for $4.86 2/3 and the United States eagle legal tender for $10, and authority was given to coin a Canadian $5 gold piece. No Canadian gold coinage was issued, however, until after the establishment of the Ottawa branch of the Royal Mint in 1908.

The domestic currency of Canada is now regulated by the Currency Act (Chap. 40, R.S.1927) which deals with coinage and legal tender. This Act authorizes the issue of the following coins:

> $20, $10, $5 and $2½ gold pieces (900 millesimal fineness).
>
> $1, 50 cent, 25 cent and 10 cent silver pieces (800 millesimal fineness).
>
> 5 cent pieces of pure nickel; and
>
> 1 cent pieces in bronze.

Only $10 and $5 gold pieces have been coined, and these in very limited amounts. As they weigh 258 and 129 grains respectively and are nine-tenths fine, the Canadian gold dollar is equivalent to 23.22 grains of pure gold. The coinage of the silver 5 cent piece was discontinued in 1921, but it is still legal tender.

Canadian gold coins are legal tender for any amount. Full legal tender powers are also possessed by British sovereigns and, until otherwise proclaimed, by the $5, $10 and $20

gold coins of the United States, which contain the same weight of gold as Canadian gold coins of these denominations. Silver coins are legal tender for payment of an amount not exceeding $10; nickel coins for an amount not exceeding $5; and bronze coins for an amount not exceeding 25 cents.

SIR THOMAS WHITE: Have you coined any silver dollars?

MR. CLARK: No. Continuing with the memorandum:

(b) Dominion Notes

An important part of the Canadian monetary system is the paper currency issued by the government.

Dominion notes are now issued under the authority of three statutes. By the Dominion Notes Act of 1914 the Dominion government is authorised to issue notes up to $50,000,000 against a reserve in gold equal to twenty-five per cent of that amount, and by chapter 4 of the Statutes of 1915, to issue notes up to $26,000,000 without any reserve of gold, $16,000,000 of the notes to be against certain specified Canadian railway securities guaranteed by the Dominion government. Notes may be issued to any additional amount in excess of $76,000,000 but, except as provided in the Finance Act, an amount of gold equal to the excess must be held. As already indicated, the Finance Act provides that the Minister of Finance may make advances to

the chartered banks and to the savings banks to which the Quebec Savings Bank Act applies by the issue of Dominion notes upon the pledge of certain approved securities. Theoretically there is no limit upon the notes that may be so issued except that imposed by the volume of eligible securities in the possession of the banks. It will be apparent that the nature of Dominion notes which before the war approximated to gold certificates has been greatly changed by the operation of the Finance Act.

The Dominion Notes Act provides that Dominion notes shall be of such denominational values as the governor in council may determine. At the present time, notes which are freely negotiable are issued in denominations of 25 cents, $1, $2, $5, $500 and $1,000. In addition notes are issued in denominations of $5,000 and $50,000 for use between banks only.

At the end of June, 1933, the total of Dominion notes outstanding was $184,427,058, of which amount all but about $30,000,000 was held by the chartered banks either in their own vaults or in the central gold reserves.

A statement of Dominion note circulation and gold holdings as at June 30, 1933, is attached, as is also a statement showing total amount of notes in circulation and the amount and percentages of gold reserve for each month since January, 1930.

DOMINION NOTE CIRCULATION AND GOLD HOLDINGS - JUNE 30,1933

Provincial	$ 27,588.83
Fractional	1,273,577.36
$1	18,750,948.50
$2	12,912,516.00
$4	30,668.00
$5	5,199,110.00
$50	650.00
$500	2,983,000.00
$1,000	7,578,000.00
Legal Tender Notes for Banks	
$1,000	1,000.00
$5,000	8,220,000.00
$50,000	127,450,000.00
	$184,427,058.69

STATUTORY AUTHORITY FOR ISSUE

Chap. 4, 1915	$ 26,000,000.00
Finance Act R.S. 1927, Chap. 70	51,944,000.00
Dominion Notes Act R.S.1927, Chap.41	106,483,058.69
	$184,427,058.69

Gold held by Minister of Finance - against Savings Bank Deposits (10% on $23,777,203.83 Under the Savings Bank Act	$ 2,377,720.38
Against notes as required by Dominion Notes Act R.S. 1927	68,983,058.69
In excess of statutory requirements	288,506.83
	$ 71,649,285.00

Statement of Dominion of Canada Notes in circulation, showing total gold held against notes together with the percentage of gold to notes from January, 1930, to June, 1933.

Date	Total Notes in Circulation	Gold held against notes in Circulation	Percentage of gold to Notes
1930			
January	175,089,063.92	62,681,877.11	36.213
February	168,676,067.30	65,249,329.27	37.616
March	174,326,618.30	63,280,836.34	36.300
April	173,957,973.80	64,197,108.12	36.903
May	169,589,259.80	64,948,330.57	38.297
June	174,218,655.80	65,719,661.43	37.722
July	166,004,461.80	77,108,846.30	46.449
August	162,696,067.30	83,308,034.05	51.204
September	169,572,356.18	92,764,140.07	56.154
October	180,829,481.68	104,754,993.33	57.930
November	207,018,247.06	122,096,792.25	54.148
December	175,415,997.06	93,803,189.15	53.475
1931			
January	146,643,690.69	75,481,155.80	51.471
February	142,858,743.69	77,679,177.33	54.382
March	141,066,256.69	80,197,877.67	56.851
April	147,741,798.69	83,172,142.99	56.295
May	152,250,754.19	85,815,505.77	56.364
June	145,317,005.19	70,534,481.43	48.538
July	139,449,505.19	70,851,418.46	50.809
August	141,615,347.19	72,385,152.11	51.255
September	150,336,415.19	68,014,579.21	45.241
October	158,040,379.69	72,851,099.40	46.097
November	197,262,055.69	68,623,851.28	34.783
December	174,390,411.69	64,730,621.53	37.003
1932			
January	170,382,805.69	66,780,545.96	39.194
February	161,896,198.69	64,626,264.56	39.918
March	157,388,179.69	63,675,099.84	40.500
April	152,873,834.69	63,908,310.62	41.804
May	154,888,177.69	64,322,782.82	41.528
June	168,273,520.69	64,849,441.37	38.538
July	166,198,550.69	65,373,788.45	39.334
August	154,160,140.69	66,186,158.67	42.953
September	153,137,875.69	67,519,168.94	44.090
October	161,301,955.69	71,176,187.02	44.126
November	198,870,406.69	72,968,046.77	36.691
December	191,170,470.69	70,788,430.66	37.028
1933			
January	180,473,727.19	70,936,056.24	39.305
February	175,701,103.19	70,348,325.60	40.038
March	180,926,882.19	69,425,661.28	38.453
April	171,859,896.19	69,616,027.40	40.512
May	174,847,584.94	69,537,007.25	39.781
June	184,427,058.69	69,271,585.52	37.560

THE CHAIRMAN: The bank notes of the ten banks are not legal tender, of course?

MR. CLARK: No.

THE CHAIRMAN: But they are exchangeable for Dominion notes?

MR. CLARK: Exchangeable for Dominion notes.

THE CHAIRMAN: Is not the bank bound to honour them by giving Dominion notes against them?

MR. CLARK: Yes.

SIR THOMAS WHITE: There is $57,500,000 unsecured. The Dominion notes in the hands of the public are mainly one's and two's.

MR. CLARK: Yes.

SIR THOMAS WHITE: Have you or can you get later on for our information the amount of what you might call the fiduciary circulation of Dominion notes; that is to say, how large a volume of Dominion notes, one's and two's, for example, would be in the hands of the public as till money or pocket money. I am trying to get at the fiduciary circulation as opposed to a gold secured circulation.

MR. CLARK: The assumption would be that all the one's and two's would be in the hands of the public as pocket money.

SIR THOMAS WHITE: That has a bearing, you understand, on the question of circulation, because if you have a fiduciary circulation a certain amount is going to stay out.

MR. CLARK: I would consider a fair estimate of that amount would be about $30,000,000. We will present to the Commission more complete data, in regard to the Dominion note issue over a longer period, showing the various constituent parts of the note issue.

COMMISSIONER LEMAN: Referring to the coinage, may I ask if silver coins are redeemable in Dominion currency.

MR. CLARK: Meaning Dominion note currency?

COMMISSIONER LEMAN: Dominion notes.

MR. CLARK: They are in practice. Of course the silver currency is legal tender up to $10.

COMMISSIONER LEMAN: Are they really exchangeable against Dominion notes?

MR. CLARK: Yes.

SIR THOMAS WHITE: They are tokens up to a certain amount.

COMMISSIONER LEMAN: Can the banks present $10,000 in silver coinage and get legal tender for that?

MR. CLARK: To the government, you mean?

COMMISSIONER LEMAN: Yes.

MR. CLARK: In practice I think it would be possible normally, but legally it would not be compulsory.

COMMISSIONER LEMAN: I do not think in practice it is done.

MR. DODDS: In practice it is not done.

COMMISSIONER LEMAN: I just wanted that point established.

MR. CLARK: You are referring to the practice in the present abnormal situation?

COMMISSIONER LEMAN: I think it may have been the case for quite a long while. At certain times due to lessened activity of business there may be an accumulation of silver coinage which has to be carried by the banks, whereas at other times the banks may suggest that the coinage should

be increased in order to meet the demands of trade and commerce.

MR. CLARK: Yes.

THE CHAIRMAN: If I take a $5 note of one of the chartered banks to the bank and ask for five $1 Dominion notes in place of it would they be bound to give them to me?

MR. CLARK: Oh yes.

SIR CHARLES ADDIS: Who is bound to give it?

MR. CLARK: The banks are bound to give it.

SIR CHARLES ADDIS: Is a chartered bank bound to exchange its own notes for Dominion notes to the public? Is there a legal obligation?

MR. CLARK: Yes.

COMMISSIONER LEMAN: The only means of settling clearing house balances is through legal tender.

THE CHAIRMAN: The notes of the chartered banks, although in themselves not legal tender, are bound to be retired by the chartered bank in legal tender upon demand. Will you furnish us, Dr. Clark, with a statement of the Dominion notes in circulation at various dates from 1930 to date, showing the gold percentages held against the notes?

These are interesting figures that you have presented showing the variation from time to time.

MR. CLARK: Yes, we will present a more complete table to you going back over a longer period, and it will be graphed for you. In the Department of Finance in practice currency is dealt with by four different branches you might say of the department -- by the Mint, by the Currency Branch of the department, by the Inspector General of Banks, and it also comes under the Administration Branch of the department.

Now I should like to say a word about the Royal Canadian Mint, which is a branch of the Department of Finance.

THE ROYAL CANADIAN MINT

The Ottawa Mint, established as a branch of the Royal Mint under the (Imperial) Coinage Act of 1870, was opened on January 2, 1908. In 1951 the Finance and Treasury Board Act was amended to provide for taking over the Ottawa Mint as the "Royal Canadian Mint" and since December of that year the Mint has been operated as a branch of the Department of Finance.

Prior to 1908 coins used in Canada had been obtained from the Royal Mint in London or from The Mint, Birmingham, Limited. In its earlier years the operations of the Mint in Canada were confined to the production of gold, silver and bronze coins for domestic circulation, of British sovereigns, and of small coins struck under contract for Newfoundland and Jamaica. The

first gold coins struck were sovereigns similar to those of Great Britain but with a small "C" identifying them as having been coined in Canada. In May, 1912, the first Canadian $10 and $5 gold pieces were struck but the amount of Canadian gold coins so far coined has been very limited -- only $3,480,360 in $10 gold pieces and $1,388,060 in $5 gold pieces. Gold coins have never been a popular medium of exchange in Canada and none have been struck since 1919. Canadians have generally preferred Dominion notes to gold coin for use within the country and, for export purposes, bullion or British and United States gold coin are at least equally desirable.

The refining of gold is now the principal activity of the Mint. Previous to 1914 small quantities of gold bullion were refined but during the war the Mint came to the assistance of the British Government by establishing a refinery in which nearly twenty million ounces of South African gold were treated for the account of the Bank of England. The growth of Canada's gold mining industry in recent years has been particularly rapid and, since the initiation in 1931 of the policy of prohibiting the export of gold except under license, practically the entire production of the country has been deposited with the Mint to be refined and later exported through the Department of

Finance. During 1932, the gold received at the Mint amounted to no less than $58,491,549.

COMMISSIONER LEMAN: All that gold received at the Mint came from Canadian mines?

MR. CLARK: Yes. You will understand that there is a Gold Export Act, prohibiting the export of gold except under license issued through the chartered banks by the Minister of Finance. In practice all the gold is purchased by the government through the mint, is refined and is exported by the Department to the world's market, New York formerly, and at present to London.

COMMISSIONER LEMAN: Have you the orders in council and legislation that was passed?

MR. CLARK: They are being presented.

HON. MR. BROWNLEE: Is a premium still being paid on gold?

MR. CLARK: Yes. The gold is all sold at world prices in the free open market and the mines are paid the premium that is received.

COMMISSIONER LEMAN: Has the Mint been a source of revenue?

MR. CLARK: Yes, of moderate revenue.

COMMISSIONER LEMAN: Can you give us the figures?

MR. CLARK: We can give you the annual reports of the Mint.

SIR THOMAS WHITE: All the seigniorage would be part of the profit.

MR. CLARK: It would be the main part of the profit.

COMMISSIONER LEMAN: When I said source of revenue, I did not express myself correctly; I meant source of profit.

MR. CLARK: What distinction do you make there?

COMMISSIONER LEMAN: A very important one. It has undoubtedly been a source of revenue, but has the Mint been a source of profit? Did you take into account the expense?

MR. CLARK: I would say that the Royal Mint at Ottawa has been a source of moderate profit, of small profit. The Assay Office at Vancouver has been conducted at a small loss, but the Mint here has been productive of a small profit.

COMMISSIONER LEMAN: Is it possible for you to look into that question?

MR. CLARK: We shall be glad to give you the figures.

SIR THOMAS WHITE: The services rendered by the Royal Mint at Ottawa during the war were beyond belief valuable. Hundreds of millions of dollars of gold were brought to Canada, and we had to enlarge the Mint. The amount of work done by the officers of the Finance Department was unbelievably great. Gold was brought in from Russia and elsewhere during that period and the enlargement of the Mint was absolutely essential.

COMMISSIONER LEMAN: The purpose in having the figures submitted to us is not, of course, to discuss the advisability of having a mint at Ottawa.

MR. CLARK: I wish now to present a memorandum on the Currency Branch of the Department of Finance, as follows:

The Currency Branch of the Department of Finance, under the direction of the

Comptroller of Currency, is the custodian of the reserve supply of Dominion of Canada notes and coin, the medium through which notes and coin are put into or withdrawn from circulation, and the custodian of the gold reserve backing the note issue. Administration of the advances to the banks authorized by the Treasury Board under the provisions of the Finance Act, the repayments of such advances and the collection of interest due are also part of the responsibility of this branch. Moreover, the branch acts as custodian of the securities deposited by the insurance companies under the provisions of the Insurance Act, of securities held for safekeeping on behalf of various other departments, and also of the reserve supply of bonds, of the various issues of the Dominion of Canada.

DOMINION NOTES

When Dominion notes are printed by the engravers they are delivered to the Currency Branch where they are checked, the necessary signatures and seals affixed in our own printing plant, and the notes then added to the reserve supply for distribution as required. To aid in such distribution an office is maintained in each province, under the supervision of an Assistant Receiver General, who reports to and receives instructions from the Comptroller of Currency, in the first instance. These offices are situated at Halifax N.S.; Charlottetown, P.E.I.; Winnipeg, Man.; Regina, Sask; St.John, N.B., Montreal, Que., Toronto, Ont. Calgary, Alta.; Victoria, B.C.; that is, there is one office in each Province. Worn, dirty and mutilated

Dominion notes which have been withdrawn from circulation by the banks as unfit for further use are presented at these various offices and new notes obtained in exchange therefor. In addition coin as required is issued to the banks in exchange for notes, and notes of various denominations as required are issued in exchange for notes of other denominations. The notes withdrawn from circulation are forwarded to the Currency Branch and, after check and audit, are macerated. The average circulation of the one and the two dollar notes (the notes in general circulation) is about ten months; the yearly replacement of notes of these denominations is slightly greater than the amount of these notes in circulation at any one time.

FINANCE ACT

The records in connection with payments to and repayments by the banks of advances under the Finance Act are kept in the Currency Branch and the details of operation directed by the Comptroller of Currency. For the most part advances and repayments are made through the office of the Assistant Receiver General, Montreal, where all the banks have a standing credit, but every transaction is immediately reported by telegraph to the Comptroller of Currency. Securities lodged under the Finance Act are now held at the office of the Assistant Receiver General at Montreal, Toronto and Regina, and in the Currency Branch, Ottawa, but records of all holdings are kept in the Currency Branch.

No withdrawal of securities can be made at any office without instructions from the Comptroller of Currency. At the end of February, May, August and November in each year statements are prepared showing the interest due by each bank, and the necessary amounts collected from the banks.

COIN

Dominion of Canada coins are struck at the Royal Canadian Mint, Ottawa, and are forwarded to the various Assistant Receiver General offices as required on instructions from the Comptroller of Currency, or are delivered to the Currency Branch to be held as a reserve supply. As the banks require coin they apply to the Assistant Receiver General offices and receive it in the same way as Dominion notes. Smooth and mutilated coin is also turned in by the banks to these offices and new coin or notes received in exchange. The coin so withdrawn from circulation is then forwarded to the Currency Branch, and after check is sent on to the Royal Canadian Mint for recoinage.

GOLD

The gold reserves in connection with the note circulation are for the most part held in the Currency Branch vaults, although a certain amount of gold coin is held at each Assistant Receiver General office to meet possible requirements. The gold purchased by the Royal Canadian Mint when refined and put into bars is turned over to the Comptroller of Currency either to be held as part of the gold reserves or for shipment to meet Canada's obligations abroad. Such shipments

are, of course, of gold held in excess of statutory requirements.

Now I turn to the third branch of the activities of the Department of Finance, the Inspector General's Branch. This is a branch which was organized in 1924, following the revision of the Act in that year, which introduced the feature of government inspection.

THE CHAIRMAN: That followed on the Home Bank failure?

MR. CLARK: Yes, in the previous year. The Inspector General of Banks is here this morning and I would suggest that you ask him to give you a statement of his functions and of the method by which he carries them out.

Lastly in addition to the duties which are performed by the specialized branches of the department already referred to there is a number of miscellaneous functions for which the administration branch of the department is responsible. I have had an analysis made of the references in the Bank Act to the Minister of Finance and the duties which he is called upon to perform, and which consequently are administered by the department. They are quite numerous. Many of them are purely of technical importance.

THE CHAIRMAN: There is a lot of routine work which has to be prescribed in the statute and which has practically no bearing on our investigation. We want to have a complete picture before us, but it is quite manifest that it is only certain of the functions that really relate themselves to our problem. The Bank Act does not call for revision on any of these routine matters. No one is going to suggest that there should be any revision in certain respects.

MR. CLARK: I have a memorandum here which presents the particular duties prescribed for the Minister of Finance under the Bank Act. I do not propose to

read it but it might be desirable to refer to the function imposed in connection with returns to be made to the department.

THE CHAIRMAN: Yes. As regards the returns which the department receives from the banks the statute appears to me to make pretty searching requirements. Has there been at any time any complaint or any suggestion to your department that further information would be of interest or use to the public?

MR. CLARK: There have been suggestions made from time to time, but not suggestions for any additions. The requests are usually for greater detail.

THE CHAIRMAN: Some times people ask for different classifications of information or for the segregation of particular items. They not infrequently I think come from the economists?

MR. CLARK: I think that is usually so.

COMMISSIONER LEMAN: My lord, would it be proper to ask both Dr. Clark and the Inspector General of Banks to file with this Commission recommendations or criticisms as to improvements in the monthly and yearly returns made by the banks? From their experience and their knowledge of conditions they might have constructive suggestions to place before us in connection with that matter.

THE CHAIRMAN: There are two aspects of that. There is first of all the government aspect. The government may for its own purposes want additional information, and if it wants additional information a statutory obligation to furnish it might be put in the

Act, but it is for the government to come before us and say they wish it. If on the other hand economists or persons interested in the commerce of Canada want additional information furnished, it is for them also to come and suggest the information they want. At the present moment the statute requires a certain amount of information. Those who wish to have additional information furnished must come and tell us what they want and justify their request.

COMMISSIONER LEMAN: Actual experience might have shown that something might be bettered in the classification of the returns.

THE CHAIRMAN: Certainly, the banks might wish to give their material in another form.

COMMISSIONER LEMAN: May we pass that question over to the Canadian Bankers' Association for recommendations?

THE CHAIRMAN: Yes. I think it is for us to await the suggestions of those concerned as to what alterations they think should be made in the law, suggestions by the banks, the government and the public. That is one of the matters arising out of the revisal of the Act. We have had ten years experience of the present requirements. This analysis that you are presenting, Dr. Clark, shows us the existing requirements.

MR. CLARK: Yes. The monthly return is set out in schedule 9 of the Bank Act. I think it is a pretty exhaustive itemization of the assets and liabilities. The fact that a return is available monthly from all the banks, perhaps not in such great detail, over a very long period of time I think means that our banking statistics

in Canada are unsurpassed by any other country.

THE CHAIRMAN: I think the requirements are much more exacting than anything in the United Kingdom.

SIR CHARLES ADDIS: Yes.

THE CHAIRMAN: The classification seems to be very detailed too.

MR. CLARK: We propose to have statistical tables and graphs presented to you giving you at least the more important of these items over a substantial period of time.

THE CHAIRMAN: One of the advantages of these preliminary meetings is that an interval will elapse before we return to the east and during that time any information can be got out that either myself or any of my colleagues desire to have prepared.

COMMISSIONER LEMAN: There are slight differences between the yearly return and the monthly return.

MR. CLARK: That is true.

COMMISSIONER LEMAN: For instance, your deposits are not classified in exactly the same way. Is there any good and valid reason for that or is it a question you would like to think over?

MR. CLARK: It is a question that I would like to think over so that I may be in a position to present recommendations to you at a later stage.

THE CHAIRMAN: I do not think we need delay over this analysis but we will keep it by us as our index.(Appendix C.) What we shall want is to pick out those of the functions which are really critical.

MR. CLARK: The only thing left, my lord, would be for

me to present a brief memorandum dealing with the Dominion government savings banks, the Quebec Savings Banks Act, the Provincial government savings offices and Caisses Populaires, the Penny Bank, and the relevant statutes. These are brief memorandums giving you a picture of the method of operation, the form of organization, and so on. The statutes I will give to you.

Mr. Clark then presented the following:

DOMINION GOVERNMENT SAVINGS BANKS
(Information partly taken from The Canada Year Book and the Canadian Almanac)

Prior to 1929 there were two classes of Dominion Government savings banks in Canada, the Post Office Savings Bank, under the Post Office Department, and the Dominion Government savings Bank, attached to the Department of Finance. The former was established under the Post Office Act of 1867 (31 Vict., C.10) in order "to enlarge the facilities now available for the deposit of small savings, to make the Post Office available for that purpose, and to give the direct security of the Dominion to every depositor for repayment of all money deposited by him together with the interest due thereon". Branches of the Government Savings Bank proper, under the authority of the Finance Department, were established in the leading cities of Canada under the management of the Assistant Receivers General and in other places, in the provinces of Nova Scotia and New Brunswick, under managers appointed by the Governor in Council. The Government Savings Bank was amalgamated with the Post Office Savings Bank in 1929.

Post Office Savings Banks are established at the General Office and at over 1,300 other offices. Sums of $1.00 or any multiple of $1.00 can be deposited, but the maximum sum which may be received from any one depositor in any year, ending the 31st March, is $1,500, and the total sum which may be received to the credit of any depositor is $5,000, exclusive of interest. Withdrawals, in cash on demand, up to $50.00 may be made at any Savings Bank Office.

Interest. The present rate of interest allowed is 2½%

per annum, the rate having been reduced from 3% to 2½% from May 1st, 1933, to conform to a similar reduction in the rate of interest allowed by chartered banks on savings deposits and to a reduction of one-half of one per cent. in the rates allowed by other financial institutions. It is recorded that the Post Office Savings Bank, which started operations in 1868, first paid 4%, which was reduced to 3½% on 1st October, 1889, to 3% on 1st July, 1897 and to 2½% (the present rate) on May 1st, 1933.

The following figures show the total deposits in both the Postal Savings Bank at the end of various fiscal years from 1868 to 1932 inclusive:

Fiscal Year	Postal Savings Bank	Dominion Government Savings Bank
	$	$
1868	204,589	1,483,219
1870	1,588,849	1,822,570
1875	2,926,090	4,245,091
1880	3,945,669	7,107,287
1885	15,090,540	17,888,536
1890	21,990,653	19,021,812
1895	26,805,542	17,644,956
1900	37,507,456	15,642,267
1905	45,368,321	16,649,136
1906	45,736,488	16,174,134
1907	47,453,228	15,088,584
1908	47,564,284	15,016,371
1909	45,190,484	14,748,436
1910	43,586,357	14,677,872
1911	43,563,764	

THE QUEBEC SAVINGS BANKS ACT

Chap.14, R.S.1927 - (Continued for one year by Cap - 28 of 1933).

The Act applies to two savings banks in the Province of Quebec, namely, the Montreal City & District Savings Bank and La Caisse d'Economie de Notre Dame de Quebec.

The Montreal City & District existed prior to Confederation, having its charter by Letters-Patent. It was the subject of pre-confederation legislation and also of Dominion legislation, which latter evolved into the present Act, following somewhat the form of The Bank Act although with quite exact limitations as to business and investments.

La Caisse d'Economie has a somewhat similar history.

Constitution: Shareholders, Directors, Capital Stock, Dividends.

STATEMENT As of June 30, 1933.

Montreal City & District.

Capital $tock, subscribed & paid up (shares $100 each)	$2,000,000
Reserve Fund	2,200,000
Assets	61,602,309
Liabilities	56,981,578
Deposits	55,075,793

La Caisse d'Economie

Capital Stock, subscribed & paid up (shares $100 each)	$2,000,000
Reserve Fund	1,250,000
Assets	16,601,565
Liabilities	13,938,833
Deposits	13,225,899

Calls

If liquid assets not sufficient to satisfy debts, directors may make calls on unpaid stock without waiting for collections or realizing on assets. (Sec.16).

Powers

Real Property May hold real and immovable property for bank's own use. (Sec.29).

Deposits May receive deposits and pay interest at rate fixed by Governor in Council not to exceed 5%. (Sec.30).

PROVINCIAL GOVERNMENT SAVINGS OFFICES

(Information partly taken from The Canada Year Book and the Canadian Almanac.)

Institutions for the deposit of savings are operated by the Provincial Governments of Ontario and Alberta, while a similar institution was in operation in Manitoba from 1924 to 1932 when the depositors' accounts were taken over by the chartered banks.

ONTARIO. In the session of 1921, the Legislature of Ontario authorized the establishment of the Province of Ontario Savings Office, and in March, 1922, the first branches were opened. The funds received from this source are used almost exclusively to finance farm loans under the Agricultural Development Act. Interest at the rate of @ 2½% per annum compounded half-yearly is paid on all accounts. The deposits are all repayable on demand. Total deposits on October 31, 1932, were $23,709,820 and the number of depositors at that date was over 90,000. Seventeen branches are in operation throughout the province.

ALBERTA. In Alberta the Provincial Treasury receives savings deposits and issues demand savings certificates bearing interest at 4%, or term certificates for one, two or three years, in denominations of $25, and upwards, bearing interest at 5%. The total amount in savings certificates on September 30, 1932 was $8,579,917, made up of $8,029,651 in demand certificates and $550,266 in term certificates.

@ Rate reduced from 3% to 2½% on May 1st, 1933, to conform to a similar reduction made by the Post Office Savings Bank and the chartered banks.

CAISSES POPULAIRES
(CO-OPERATIVE PEOPLE'S BANKS)

History, Organization and Operation:

The first successful effort to introduce the principle of the small bank for rural purposes in Canada was made in the province of Quebec. The late M. Alphonse Desjardins, a resident of the town of Levis, after a careful study of the systems of small banks in operation in Europe, decided to introduce into Quebec a system of "People's Banks", the "Caisses Populaires" after the model of the "People's Banks" in Italy.

The first bank was organized under the scheme on December 6th, 1900, in the town of Levis.

The conditions making possible the success of such a scheme were present in the province of Quebec as in no other province in Canada. The social, racial and religious unity that exists there made it easy for groups of people to co-operate on a common idea.

These banks are not strictly rural institutions, that is to say, they admit to membership persons who are other than farmers, but, in reality, they work out to be more largely in the interest of farmers than any other class, because of the high percentage of farmers composing the membership, While they do not specially aim to do a mortgage business, loans are made on first mortgages on immovable property. In addition, they make loans to their members on personal security.

It is a matter of record that between the years 1907 and 1914 attempts were made on no less than six

occasions to bring these or similar co-operative institutions under an act of parliament of Canada. For one reason or another all bills introduced failed of enactment. It is interesting to quote from the debates of 1910 and 1911, volume 1, pages 1303 and 1314, the following passages from remarks of the late Mr. P. D. Monks:

> "There is this limitation, that the only depositors in the funds of the society are the members themselves. That is the rule that obtains in co-operative societies all over the world. The Bankers' Association declared, when this proviso was inserted in the bill, that they had no objection whatever to the incorporation, if the taking of deposits and the making of loans were restricted to the members themselves.
>
> "The Minister of Finance (Mr. Fielding) submitted this bill to the Bankers' Association, with the result that he was satisfied when it came before the Banking Committee".

The following information from the Statistical Year Book of Quebec, 1932, page 444, explains the status, objects and operation of these institutions:

> "The Co-operative People's Banks are organized and operate under the Quebec Syndicates" Act, 1906 (now Co-operative Syndicates' Act of Quebec, R.S.B.Q. 1925, volume 3, chapter 254.
>
> "The transactions of these banks are those of a mutual company, owing to the fact they generally loan only to their shareholders; these have the right of making deposits over and above the amount of their shares. This dual privilege makes them a savings and credit institution. They are a popular credit available to agricultural and industrial classes. The shares are generally fixed at $5.00 which may be paid in instalments. Both shares and deposits may be withdrawn on demand. The liability of each shareholder is

limited to subscription which generally does not exceed $2,000 per shareholder.

"Shareholders and borrowers must reside within the area of the bank's field of operations; the by-laws may, nevertheless, allow shareholders who move away to continue members of the association without eligibility to office. The larger loans are made upon first mortgage and the smaller ones upon notes. A portion of the loan, capital and interest, must be repaid at fixed periods in such a way as to extinguish the debt within a determinate time.

"These banks are managed by three committees: the Board of Management, composed of at least five members, but oftener nine, has charge of the general direction of the bank; the Committee on Credit is composed of at least three members, ordinarily of four; its duty consists in examining, approving or rejecting loans asked by shareholders; the Board of Supervision, composed of three members, inspects the books and documents, verifies the value of loans and securities required, etc. These services are gratuitous but the manager may be paid. Under the present law, the Board of Supervision must have the operations of the association audited once a year by an inspector of an organized federation. This aud is made at the expense of the syndicate if it is not already affiliated to a federation. If requested by a federation, a Board of Management or Supervision, by 25 members or by two thirds of the members if there are less than 25, the Provincial Treasurer may order such audit to be made."

EXTENT OF OPERATIONS

The following comparative figures showing the progress of the Caisses Populaires as at December 31st, in each year indicated are of interest:

	1915	1920	1925	1929	1931
No. Bks which sent reports	91	100	122	178	1
No. of Members	23,614	31,029	33,279	44,835	43,6
No. of Depositors	15,606	26,238	33,527	44,685	43,2
No, of Borrowers	6,728	9,213	9,384	13,553	13,2
No. loans granted	9,095	15,297	13,794	17,994	16,2
Amt. Loans granted*	$1,549,759	$4,272,564	$3,819,960	$ 4,249,650	$2,998,0
Gross Profits realized	$ 99,395	$ 311,322	449,530	$ 645,616	$ 594,2
Loans outstanding*	$1,684,651	$5,181,391	$7,087,211	$10,314,822	$9,762,3
Deposits	$1,141,528	$4,558,053	$5,799,951	$ 8,090.614	$7,436,8
Capital stock	$ 715,335	$1,199,170	$1,534.051	$ 1,850,541	$1,776,0
Reserve & Provident Funds	$ 68,337	$ 252,627	$ 604.381	$ 960,667	$1,090,6
Profits & Initiation tax	$ 91,433	$ 249,258	$ 241,897	$ 294,993	$ 272,6

*1. Would appear to include renewals.

*2. This total evidently includes loans of every character; for example, it is noted from statistics that during the year 1931 loans were granted on notes to the extent of $1,979,282, on mortgages $631,908, and on debentures $378,929.

INTEREST RATES

The statistics show that the rates of interest paid on deposits vary from a minimum of 3 per cent to a maximum of 5 per cent, although 3 and 4 per cent appear to be the more commong rates. There is no statistical indication of the rates charged on loans, but a communication from the Bureau of Statistics, Department of Municipal Affairs, Quebec, in 1931, gave me the following information:

> "As far as I can ascertain, the interest rate charged borrowers from the People's Banks varies from 5 per cent to 8 per cent -- ordinarily 6 per cent or 7 per cent -- according to the duration and amount of the loan and the borrowers' solvability. The larger notes are made upon mortgages and the smaller ones upon notes. The borrowers are allowed to reimburse their loan by weekly or monthly payments, and after a payment has been made, interest is charged on the amount outstanding only."

In endeavouring some two or three years ago to obtain statistical data with reference to the number of indtitutions which had been liquidated, resultant losses, etc., I obtained the following report from the Provincial Statistician:

> "It was in 1915 that the returns from these banks were collected for the first time and from that year to 1928 fifty of these institutions have liquidated. In some instances, liquidation was due to the insufficient number of members or the fact that they were making no transactions. As to the amount of losses met with, we have absolutely no information owing, as you are aware, to the absence of government inspection."

During the 1930 session of the provincial legislature, an attempt was made to enact legislation providing for inspection by the government. A debate upon the measure indicated that a considerable number of the institutions were opposed to government inspection, while others desired it. The law, as passed, did not make inspection compulsory. It was simply made effective when desired by any particular institutions themselves.

THE PENNY BANK ACT

Cap. 13, R.S. 1927.

(Sec. 26 amended by Cap. 1927)

Penny Banks are designed to encourage small savings by school children, but their facilities are available to persons of any age, status or condition of life. (See note on Sec. 23)

Incorporation and Organization

Letters patent by Governor in Council to five or more persons - subject to recommendation by Minister of Finance.

Business not to commence before guarantee fund established nor until directors elected; nor until Treasury Board certificate issued. Bank not to be deemed to be a bank within the meaning of the Bank Act.

Guarantee Fund

This is a fund for securing repayment of deposits and interest thereon and all other management debts. (sec. 31).

The fund shall consist of:

(a) All moneys and securities received by or paid to the bank (other than deposits and interest and other than moneys specifically appropriated by the Act, or by donors for working expenses or for any other purpose than the guarantee fund), (Sec.32).

(b) Securities and investments in which the bank is authorized by the Act to invest the moneys of the fund.

(c) Unpaid subscriptions to the said fund. (Sec. 32).

Investments of Guarantee Funds

(a) Government securities
(b) Municipal debentures,
(c) Shares of trust companies.
(d) Debentures of certain other companies of certain financial standing and dividend history.
(e) Trustee securities.
(f) Real estate required for use and occupation of banks. (Sec. 33).

Amount of fund

Fund deemed to be established when it amounts to $10,000 in any or all of (a) cash, (b) securities, (c) unpaid subscriptions. (Sec. 34).

Deposits

Bank may receive deposits from persons of whatever age, status or condition of life- maximum of an account $300 - interest not to exceed Government savings bank rate. (Sec.23).

Financial Administration of Deposists.

Bank may hold not exceeding 5% of deposits for the purpose of paying withdrawals.

All deposits to be kept in Post Office Savings Bank; provided; one-half of deposits elsewhere than at locals of head office may be deposited in a chartered bank. (Sec. 25).

Exceptional Withdrawal

May be made for working expenses or augmenting guarantee fund from excess of interest received over interest paid by bank.

May also withdraw its funds to amount approved by Minister for investment in Dominion Government securities. (Sec. 26-2).

Amended in 1929 - Cap. 51 - to include provincial and municipal securities and securities guaranteed by Dominion or any province.

All securities shall be deposited with Minister of Finance and when sold proceeds to be deposited in Post Office Savings Bank to credit of bank.

Powers

Bank shall not -

(a) issue bank notes;
(b) deal in bills of exchange or promissory notes;
(c) except as elsewhere specified, acquire any real estate;
(d) invest, lend or dispose of moneys except as permitted by Act;
(e) except as especially provided by Act engage or be engaged in any trade or business. (Sec.27).

Statements

Annual to Minister as of last day of June, verified by oath of President, etc., and verified by a chartered accountant.

The statement of the Penny Bank of Ontario (the only Penny Bank operating) for year ended June 30, 1932, shows the following:

Assets	$1,384,695,11
Liabilities	1,356,354,79
Surplus (Guarantee Fund and Interest earned)	28,340.32
Deposits and accrued interest	1,356,354,79
Guarantee Fund	20,000.00

Note on Government Savings Banks

Government Savings Banks no longer exist, their business having been taken over by the Post Office Savings Bank.

Dominion Savings Banks were, while they existed, administered by the Department of Finance and were stationed at Assistant Receiver General offices but also at a few other points.

Post Office Savings Bank facilities are available at Post Offices designated by the Postmaster General.

The rate of interest for many years has been 3% per annum but a recent Order in Council reduced the rate to 2½ per annum effective May 1st, 1933.

Amount of deposits as at July31, 1933	$23,579,069.26
Gold held against said deposits	2,357,906.93

Where in The Penny Bank Act reference is made to Government Savings Banks, it must now mean and include Post Office Savings Banks.

THE CHAIRMAN: The banks in regard to which you have just presented memoranda are not affected I think by the legislation we are revising now?

MR. CLARK: The charters of the Quebec Savings banks expire at the same time as the charters of the banks dealt with at the decennial revision.

THE CHAIRMAN: Technically what we are required under our remit to do is to consider the revisal of the Bank Act.

MR. CLARK: I would say that your remit asks you to review the entire monetary structure.

THE CHAIRMAN: We want to know about these things as being part of the finances of Canada. We have in addition to our general survey, which must include these things, the specific task to make recommendations for the revisal of the Bank Act itself. We are not called upon, are we, to make recommendations for the revisal of these other statutes relating, for instance, to the Quebec Savings banks?

MR. CLARK: That is not specifically mentioned.

THE CHAIRMAN: It is within our survey. It exists as part of the finances of the country, but we are making recommendations for the revisal of the Bank Act.

SIR THOMAS WHITE There are scores of other financial institutions in Canada, great loan and trust companies, that do not come within the scope of this Act, but these two banks in Quebec do.

THE CHAIRMAN: On the other hand we have to be aware of the existence of these other financial bodies because they have repercussions on the banking system,

but it is not within the formal scope of our inquiry although properly embraced within our survey. But it is very useful for us to have these.

MR. CLARK: I have also to present to you copies of the Bank Act since 1871 which you, Mr lord, asked for yesterday.

(Bank Acts filed.)

THE CHAIRMAN: These are in the form as enacted, not in the revised form?

MR. CLARK: Yes.

THE CHAIRMAN: That is exactly what I wanted.

MR. CLARK: I am also filing with the Commission a copy of the various statutes and further copies will be made available to the members of the Commission.

(Documents filed with the Secretary.)

COMMISSIONER LEMAN: I think it would be of interest to the Commission if we could have from you some figures and information as to the revenues accruing to the government of Canada from the circulation under the operation of the Finance Act.

MR. CLARK: We will make that information available.

COMMISSIONER LEMAN: Since the beginning so far as the Finance Act is concerned, and so far as the circulation is concerned, I would like his lordship, if he would, to give us some ideas as to the period the information should cover. We do not want to go back fifty years, but say perhaps since the last revision of the Bank Act. What would be your lordship's view?

THE CHAIRMAN: If any member of the Commission thinks it is useful to establish any point you have in

mind, we must necessarily have it, but I am not always able to assist in advising what material will be necessary to assist in establishing any particular proposition or in elucidating any particular aspect.

COMMISSIONER LEMAN: The matter of a separate organization has been brought up. I think one of the elements of consideration would be the revenue derived from these activities. I do not say that it is the whole thing, but it is an element that has to be taken into account.

THE CHAIRMAN: If we can get any information bearing on that I think it would be useful. Why not, since we are taking the Finance Act since 1914, cover the same period as regards the revenue derived from Dominion notes?

MR. CLARK: From the circulation tax.

THE SECRETARY: It was only imposed in 1915.

MR. TOMPKINS: Would it be the idea to include the interest paid on excess circulation?

COMMISSIONER LEMAN: Yes.

THE CHAIRMAN: In regard to the Finance Act, I want the original enactment, the two original Acts. I do not think they are in this collection. I would like to see whether there was such a preamble as Sir Thomas White suggested. Now I will ask the Inspector General of Banks to give us his assistance.

MR. C. E. S. TOMPKINS (Inspector General of Banks): Prior to 1924 there was no provision for government inspection of banks, reliance being placed upon the monthly returns submitted by the banks plus the annual examinations conducted by the shareholders' auditors.

The powers and duties of these auditors were enlarged in the regular revision of the Act in 1923 and requirements as to monthly returns made more stringent, but before these changes came into effective operation the failure of the Home Bank of Canada, followed by an investigation into such failure by a Royal Commission, led to a renewal of previous agitation for government inspection and eventually to the enactment of the present section 56 of the Bank Act, providing for the office of Inspector General of Banks (an officer of the Department of Finance) which received Royal Asssnt on July 19th of that year. The appointment of the present incumbent was made by order in council of October 31, 1924, effective as from November 1st. Subsection 8 of section 56 reads as follows:

> "8. The Inspector, from time to time, but not less frequently than once in each calendar year, shall make or cause to be made, such examination and inquiry into the affairs or business of each bank as he may deem to be necessary or expedient, and for such purposes take charge on the premises of the assets of the bank or any portion thereof, if the need should arise, for the purpose of satisfying himself that the provisions of this Act having reference to the safety of the creditors and shareholders of each such bank are being duly observed and that the bank is in a sound financial condition, and at the conclusion of each such examination and inquiry shall report thereon to the Minister."

In the beginning the question naturally arose as to the procedure that should be followed in conducting these examinations. There appeared to be no object in creating an elaborate organization and duplicating unnecessarily detailed work already performed by the

shareholders' auditors and the banks' own inspectors, provided that work seemed upon inquiry to be efficiently performed, but rather that there should be concentration upon the more vital features of each bank's operations, which would obviously take into account as matters of prime importance the larger individual loaning risks, the position of investment securities and other assets of a substantial character and the general conditions and systems prevailing at the head offices of the respective banks. In practice, therefore, examinations have been confined to the records at the head offices and particular attention has been directed to the quality of all loaning risks in excess of one per cent of the paid up capital of a bank, although the position of many accounts under this limit is often inquired into. It should, moreover, be stated that the shareholders' auditors in the course of their duties carry an examination into the condition of all loans down to a much more moderate figure. For the purpose of the examinations under section 56 the complete head office files are at all times available to the Inspector, including financial statements and other information concerning the various borrowers, and correspondence between the head office, district supervisors and branch managers, together with reports of the bank's own inspectors who conduct detailed inspections of all branches at least once annually. The condition of individual accounts is discussed where necessary with executive officers of the bank and also, if the occasion requires, with the shareholders'

auditors as well. The examination, as already indicated, also extends to the banks' investments in government, municipal and other bonds and stocks and to the position of real estate, mortgages and other assets of importance.

It should be pointed out that examinations under section 56 of the Bank Act have never yet been extended to include a physical or detailed check of cash, bank balances, or securities on hand. This is done to the extent required by the Act by the shareholders' auditors, who are all accountants of wide experience and ability, whereas the banks' internal inspections, to which reference has already been made, cover a thorough verification of assets and liabilities at all branches at least once in each year.

The Act provides that the Inspector "shall be entitled to require and receive from" not only the directors and officers of the bank, but from the shareholders' auditors as well, "such information and explanation as he may deem necessary for the performance of his duties." As a result of this authority and particularly because of conditions in recent years, there has been collaboration with the auditors of the various banks concerning the more important matters which come under review. Due cognizance is naturally taken of the trend of earnings and of the sufficiency of provision for bad and doubtful loans and other assets. In addition to the regular annual examination it is the practice to keep informed regarding important developments occurring in the interim.

All bank returns sent to the Minister of Finance as

required by the Bank Act come before the inspector for perusal, and if an examination of the monthly statements reveals fluctuations of importance in any particular items, explanations are required from the bank or banks concerned. These returns are also watched for the percentage of cash holdings and general liquidity from month to month. Statements of advances under the Finance Act are available from day to day and the trend of these advances is closely followed, any exceptional borrowings or fluctuations being a matter of discussion with individual banks whenever necessary.

The statute provides that all salaries, remuneration and other expenses incidental to giving effect to Section 56 shall be paid out of the Consolidated Revenue Fund under appropriation therefor by Parliament, and that the Consolidated Revenue Fund shall be recouped after the end of each calendar year for such outlay by an assessment upon the banks based upon their average total assets respectively during the year, as shown by the monthly returns.

THE CHAIRMAN: I was just looking at Section 56 and I see that the duties of your inspection are really contained in subsection 8 of section 56 which you have quoted.

MR. TOMPKINS: Yes.

THE CHAIRMAN: Your duty is to make your inspection for the purpose of satisfying yourself that the provisions of the Bank Act having reference to the safety of the creditors and shareholders of each bank are being duly observed.

MR. TOMPKINS: I take it that my duties extend more or less in a general way to include one's own observations.

THE CHAIRMAN: The first part of the statute prescribes for the banks a code which they must work to, and you have to see that they conform to that. But then you have a much more extensive duty, to satisfy yourself that the bank is in a sound financial position.

That is a pretty onerous burden placed upon you, I can see, and for that purpose you are given very extensive powers. Among the powers you have are the powers of a commissioner under the Inquiries Act, which are practically the powers of a judge.

MR. TOMPKINS: No definite procedure was laid down in the statute.

THE CHAIRMAN: Quite so, and therefore you have to use your own discretion to a large extent. You have very extensive powers of investigation and one might say that you are in a sense a watch dog in the interests of the depositors, the bank, and of the public. That is really your duty.

MR. TOMPKINS: Yes.

THE CHAIRMAN: And at the end of each examination I see that you have to report to the Minister.

MR. TOMPKINS: That question arose at the beginning of my term of office, and the unanimous view at that time was that there should not be anything in the nature of a detailed report, which would naturally include many matters of a confidential nature which should not be made public. My own records embrace such details as are necessary in connection with all the examinations that have been conducted, and so far as reports to the Minister are concerned they have largely consisted of statements that the examinations have been conducted, and in any case where matters required special discussion, those discussions have been largely verbal.

THE CHAIRMAN: It does not say whether the report

is to be in writing or verbal, but it does require you to report on your examination and inquiry, and your inquiry does extend to the sound financial position. I can see that that might place you, and indeed the banks, in some embarrassment, because you might desire to make some comment to the Minister confidentially which if made public might be quite misinterpreted.

MR. TOMPKINS: Of course, my lord, there is a further subsection 11.

THE CHAIRMAN: That is rather different. I was going to come to that in a moment. That is a very serious sanction. But take your normal work. Beyond inspecting and obtaining the information you require and are entitled to exact, you report to the Minister the result of your examination, but no sanction really attaches to your report. That is to say, you cannot impose yourself in any way. You can only act as a critic.

MR. TOMPKINS: As a critic. I may say that important matters are frequently discussed with different banks and I have never encountered any serious difficulty.

THE CHAIRMAN: Quite so, but one likes always to test these things at the breaking point, so to speak. If you take the view that a particular course or operation was undesirable in its financial effects, you can report to the Minister..

MR. TOMPKINS: Quite so.

THE CHAIRMAN: And what power would the Minister, in turn, have if he thought that your report required

him to take action?

MR. TOMPKINS: I cannot refer your lordship to any specific statutory power he would have, but the mere fact that he would take a definite position in the matter would be sufficient to bring about results.

THE CHAIRMAN: The other matter dealt with in subsection is much more serious, and that is when you are satisfied that the bank is insolvent.

MR. TOMPKINS: I have never interfered in a situation of that sort.

THE CHAIRMAN: There you have to make a special report and a curator is put in. I was thinking rather of things far short of that, questions of policy that might arise. When, for instance, you are considering the question of the sound financial condition of a great bank you may find that it is financially satisfactory but you may say, "I do not like this particular line of business the bank is embarking on just now because utlimately it may imperil the solvency of the bank although no question of insolvency may arise at the moment". The course might not commend itself to you, but all you can do is to discuss with the bank your views of the danger, and in turn place your report before the Minister, and your function is then at an end.

MR. TOMPKINS: Quite so. I might respectfully suggest to your lordship that we might pursue this subject further in a private session, when I might refer to the three bank mergers which have taken place since I Have been in office.

THE CHAIRMAN: Quite so, there are certain matters that we must not discuss in public. But from a public point of view your appointment is really made to allay the anxiety which ensued in consequence of the failure of the Home Bank. It was thought that there should be a government official charged with this duty of examination and report to the Minister.

MR. TOMPKINS: In addition to the audit.

THE CHAIRMAN: The audit must be in the usual form published for the shareholders, and if the auditor is not satisfied with the information he gets he is entitled to complain in his auditor's report, and that is a danger flag at once to the public. You do not make any such report?

MR. TOMPKINS: I do not.

THE CHAIRMAN: It would be quite improper that you should.

MR. TOMPKINS: On the subject of bank returns the suggestion has been made that perhaps the present classification of assets and liabilities might be enlarged or amended in some way to make it more useful and informative. Of course we have ourselves received various suggestions from time to time.

THE CHAIRMAN: From what source did they come?

COMMISSIONER LEMAN: From accountants?

SIR THOMAS WHITE: From economists?

MR. TOMPKINS: Not only from economists but from other sources as well, from chartered accountants and from the banks themselves. We receive minor suggestions of what they consider improvements, but I have

hesitated myself to draft out any definite suggestions as to what changes should be made. I think as your lordship suggests that we should hear suggestions from all sides and then we would be better able to consider their advisability and decide what are the most desirable changes to make.

THE CHAIRMAN: I think one should say this generally, and I think I speak for my colleagues as well when I say that we do not want to lose ourselves in mere details. The statute no doubt is susceptible of improvement in many respects. Inevitably after an act has been in force for ten years there are small matters, the dotting of an I and the stroking of a T that has to be done. That is done more in the revising section of the Department. It is not controversial. But we want to keep clear of mere details of that sort which do not affect the policy of the act. We want to keep our minds really fixed on the larger issues.

SIR THOMAS WHITE: After all, the Minister of Finance must introduce a bill at the next session of parliament in collaboration and after consultation with his officials, and no doubt he could arrange such a classification as they approve of. I have no doubt that before the Banking and Commerce Committee the Inspector General would then go and say that that classification had his approval. The Minister would say, "This has been drafted after very careful consideration by the officials of my department, having regard to suggestions which have been received by us", and I have

no doubt that such changes would go through without controversy.

THE CHAIRMAN: I do not contemplate that our report will contain any detailed recommendations on things of that sort. They would be on a much wider scale, but it may be proper for us to say, "We have heard some evidence on the returns that are made, and it might be advisable that this matter should be reconsidered." But we would not go into details of that at all.

COMMISSIONER LEMAN: There is one point on which Mr. Tompkins might advise us, and that is whether as regards the practice of the banks he has been able to achieve more uniformity in accounting methods and in the classification of the various returns.

MR. TOMPKINS: Do you refer to the classification of the monthly returns?

COMMISSIONER LEMAN: Or the yearly returns and as to the general practices of the banks?

MR. TOMPKINS: My thought all along has been that uniformity of classification is something to be aimed at as desirable, and I think I have succeeded fairly well, generally speaking, in having the banks change any classification to conform to what seems to be a more desirable uniform policy.

THE CHAIRMAN: You want all the audits, of course, to be prepared on the same basis or they are no use for comparative purposes.

COMMISSIONER LEMAN: That is where the Inspector General of Banks has been of very great assistance.

THE CHAIRMAN: You do not go to the various provinces?

MR. TOMPKINS: No, I have never found it necessary to visit the branches of the banks. I have kept in touch generally with conditions and do keep in touch with conditions in all parts of Canada, but the records at head office really afford all the necessary information.

THE CHAIRMAN: Do you as an official representing the public receive to any extent communications from the public?

MR. TOMPKINS: A very great many.

THE CHAIRMAN: I should rather like to hear from you a little about that. Some of them I suppose would not be of great assistance, but on the other hand you will no doubt receive from time serious communications that are of importance.

MR. TOMPKINS: They frequently come through the Minister and are referred to me for direct reply or for a memorandum or comments to enable the Minister to reply.

THE CHAIRMAN: Would you give us an idea, without going into detail, of the points that have arisen in recent times in that way?

MR. TOMPKINS: Complaints have been made of various characters, some of which I have referred to the particular bank concerned to enable them to investigate the matter from the head office, and to put me in a position to reply in an intelligent way to the complaint.

THE CHAIRMAN: Are these intelligent complaints from individual customers?

MR. TOMPKINS: Very often.

THE CHAIRMAN: Do you on the other hand receive constructive criticisms? Does that kind of thing ever reach you?

MR. TOMPKINS: A great many of the criticisms I must say are unimportant and not deserving of very serious consideration. On the other hand there are a few that are quite intelligent and require intelligent answers.

THE CHAIRMAN: You take these up and enter into communication with your correspondent?

MR. TOMPKINS: I usually receive more during a session of parliament than during any other period of the year.

COMMISSIONER LEMAN: Pure coincidence!

THE CHAIRMAN: I was not thinking so much of the disappointed borrower with whom you really cannot deal at all. I was wondering whether an inspector representing the public interest might not receive from time to time either complaints or suggestions that you might, through your influence, bring to bear upon the banks.

MR. TOMPKINS: I have been able in a limited number of cases to bring the banks and clients together on matters on which there have perhaps been misunderstandings. I do not say that these have been matters of very great importance, but very often complaints about minor business dealings have come to me.

THE CHAIRMAN: I can understand that you may be a useful safety valve in that way.

Have you, Dr. Clark, any more material that you wish to place before us?

MR. CLARK: I think not.

THE CHAIRMAN: Have there in the course of years in Canada been any previous inquiries comparable to the inquiry we are now conducting? Have you had any such inquiries before? In England before my inquiry there we have had a series of very important inquiries into such topics which were gone into very fully, My colleague Sir Charles Addis was on more than one of such bodies. Have you any blue book material in addition to the statutory material here ?

MR. CLARK: I do not recall any inquiry of that sort of the scope that has been given to this Commission. Of course there is the Banking and Commerce Committee of the House of Commons which takes up the Bank Act at each decennial revision.

HON. MR. BROWNLEE: Could the record of the last inquiry when the Bank Act was being revised a little over ten years ago be obtained in handy form?

MR. CLARK: Yes, it could be.

THE CHAIRMAN: I am glad you raised that question because on previous occasions from 1880 onwards the five revisals that have taken place have taken place in the ordinary parliamentary routine. What is the ordinary procedure? Is the Bank Act referred to a special committee of parliament for the purpose of considering what alterations should be recommended at the decennial revision, or have you a standing committee of the house?

MR. CLARK: A standing committee of the House.

THE CHAIRMAN: There is a standing committee of the House which takes into consideration the statute and presents a report to the House?

SIR THOMAS WHITE: Might I explain? The procedure is this. The Minister and the Government consider what changes they think it is desirable to make in the existing banking legislation, and the Minister of Finance then has a bill drafted embodying those changes; that is to say it is the bill which he intends to become the legislation for the next ten years. He takes the initiative with regard to any changes. He introduces that bill; it is a government measure, and after its second reading, upon which there is debate of a general character the bill goes to the Banking and Commerce Committee, which is a very important committee of the House. The Banking and Commerce Committee then take up in detail the bill which has already been discussed in the large, as I have said, in the House on the second reading, and as a general practice they ask bankers and others to come before the Committee to give them information and testify with respect to any questions that may be raised during the revision. Each clause of the Bank Act so introduced by the Minister of Finance is considered by the Banking and Commerce Committee. The Banking and Commerce Committee may make changes, usually of course with the consent of the Minister, in view of the further light by reason of the information and criticism received, and when the bill is finally passed by the Banking and

Commerce Committee it goes to the House and afterwards receives its third reading, and then goes to the Senate.

THE CHAIRMAN: I see exactly. So in the ordinary course the Minister really promotes the bill. Now on this occasion the Minister is not promoting any bill for the decennial revision of the Bank Act. I understand that the Royal Commission is set up on this occasion because of the desirability of having a wider and more exhaustive survey.

SIR THOMAS WHITE: Which will be useful to the Minister in the preparation of the bill.

THE CHAIRMAN: And because of the exceptional condition of affairs in the world just now it has been thought desirable that the inquiry should be on a wider scale than is usually undertaken by your Banking and Commerce Committee. I quite follow.

SIR THOMAS WHITE: The scope of this Commission is wider than that of banking.

THE CHAIRMAN: And any recommendations that we see fit to make will be before the Minister when he takes up with his Department the new bill which will go for examination before the Banking and Commerce Committee.

SIR THOMAS WHITE: Our recommendations would be useful to him but would not in any way necessarily be conclusive.

MR. TOMPKINS: I should like to file with the Commission a return showing the number of chartered banks that have gone into liquidation since 1867.

(Filed as Appendix "B")

THE CHAIRMAN: It is a depressing note to conclude on before lunch, but we shall be glad to have it on file.

MR. TOMPKINS: I might add that the return has been brought up to date recently and is more comprehensive, giving the number of branches when operations ceased and the approximate or actual cost to depositors and the amount of double liability collected.

THE CHAIRMAN: I think that is good statistical data.

HON. MR. BROWNLEE: May I ask Dr. Clark whether he had the evidence that was taken before the Banking and Commerce Committee when the last revision of the Bank Act took place.

MR. CLARK: It is in the form of a government blue book.

HON. MR. BROWNLEE: Have you enough copies to give us one?

MR. CLARK: Mr. Plumptre is going to deliver to each member of the Commission this afternoon a synopsis of the evidence taken in the inquiries since 1913 at the hearings before the Banking and Commerce Committee as well as of the special hearing before the Bank and Commerce Committee in 1928.

THE CHAIRMAN: If these proceedings are reported in committee I think we should have the proceedings in committee of the recent revisals so that we can see what matters have come up.

SIR THOMAS WHITE: Yes, the advantage of that is this, your lordship, that usually three or four larger

topics come up for discussion in that committee. There may be a division of opinion in regard to them. There are a number of questions that emerge at every decennial revision.

THE CHAIRMAN: Hardy decennials, one might say.

HON. MR. BROWNLEE: And the discussion in the House and in the Banking and Commerce Committee would show what those topics are. It would give us a good cross-section of the different points of view.

THE CHAIRMAN: Yes, we can read them on the train.

MR. TOMPKINS: May I for the purpose of keeping the record straight refer to a question that Commissioner Leman asked at the beginning of this hearing with respect to the increase in the capital stock of a bank being approved by the Treasury Board pursuant to the shareholders' meeting. He asked the question whether the capital stock could be increased beyond the limit set in the original act of incorporation.

THE CHAIRMAN: In the case of a merger.

MR. TOMPKINS: The answer is yes, they can, because the original act of incorporation provides merely for what is considered to be an appropriate capital at that time, and under section 32, as well as under sections 103, 104 and 105 the capital stock of the bank may be increased by by-law passed by the shareholders and subsequently approved by the Treasury Board and by the governor in council.

COMMISSIONER LEMAN: Beyond the authorized capital?

MR. TOMPKINS: Yes.

SIR THOMAS WHITE: There has to be a by-law passed by the shareholders of the bank which, under the authority of the Bank Act, enables the capital stock to be increased.

THE CHAIRMAN: If I might interpret the vocabulary, because we use slightly different language, the by-law is really a special resolution of the company.

MR. TOMPKINS: Quite so.

THE CHAIRMAN: I should have asked this question before, Mr. Tompkins. Before you became Inspector General of Banks you had had considerable banking experience?

MR. TOMPKINS: A great many years, since 1902.

THE CHAIRMAN: As a practical banker?

MR. TOMPKINS: Yes.

THE CHAIRMAN: I think it is desirable to have that in the notes.

COMMISSIONER LEMAN: This question of the authorized capital in the charter of a bank is of considerable moment.

MR. TOMPKINS: It is only of initial moment. The bank may grow, as many of our larger banks have grown in the course of years, into a very much larger institution than was contemplated in the beginning.

COMMISSIONER LEMAN: What I mean is that the Treasury Board can automatically increase the authorized capital of a bank regardless of the limit set in its charter.

MR. TOMPKINS: Quite so.

COMMISSIONER LEMAN: Is there any document giving

in comprehensive form the changes that have been made in the capital structure of the banks in Canada?

MR. TOMPKINS: The only thing I can recall at the moment that would give it would be Houston's Annual Review which gives the new stock issues made by the banks from time to time.

HON. MR. BROWNLEE: Can you get for us a compilation of the changes in the capitalization structure of the existing banks particularly with reference to changes that have taken place through amalgamation or consolidation?

MR. TOMPKINS: I think it would be quite possible to give that.

THE CHAIRMAN: The new stock issued is issued at a premium, and it has to be issued to existing shareholders in the first place?

MR. TOMPKINS: Yes

THE CHAIRMAN: And any balance they do not take up, the public may subscribe for?

MR. BROWNLEE: There have been certain issues of capital stock giving shareholders two shares for one.

MR. TOMPKINS: There has been no splitting up of stock.

HON. MR. BROWNLEE: Have you any idea as to the total figure? I was curious to have an historical account of the matter.

COMMISSIONER LEMAN: A compilation of the yearly returns would show it.

MR. TOMPKINS: If it can be put in some convenient

form I shall be glad to do it.

HON. MR. BROWNLEE: If it is not too much trouble I should be glad to have it.

THE CHAIRMAN: We are very much obliged to Dr. Clark and to the Inspector General for putting us so very adequately in possession of the statutory and other material which ought to be before us at the inception of our inquiry. The Commission will now adjourn so far as its public sittings are concerned. I might announce that we are proceeding tonight to Victoria, and we shall return here after we have made extensive visits to various cities of the west. This afternoon we propose as we did yesterday to have an informal conference with the Deputy Minister and the Inspector General upon certain or detailed matters which we would like to pursue with them. This will conclude our present sittings.

The Commission adjourned at 1 p.m.
Wednesday, 8th August, 1933, to resume
on Monday, 15th August, 1933 at 11 a.m.

ROYAL COMMISSION ON BANKING AND CURRENCY

THE RIGHT HON. LORD MACMILLAN, P.C., K.C., Chairman.

SIR THOMAS WHITE, P. C., K.C.M.G., SIR CHARLES ADDIS, K.C.M.G

BEAUDRY LEMAN, B. Sc., C.E., HON. J.E.BROWNLEE, K.C., M.

B. J. Roberts, Esq.,
Secretary,

A. F. W. Plumptre, Esq.,
Assistant Secretary.

PUBLIC SITTING

The Court House,

VICTORIA, B.C.

14th August, 1933.

THIRD DAY

Robert Brydie,
Official Reporter.

Court House,
Victoria, B.C.
August 14, 1933.

-- The Commission resumed at 11:00 o'clock, a.m.

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PREMIER S. F. TOLMIE: My lord and members of the Commission, I am sure that we are very glad indeed to welcome you all here. We fully realise the great importance of the work you have in hand. We sincerely hope that the people of British Columbia will present their cases before you in Victoria and in Vancouver, because this is an opportunity afforded to them to clear up several matters on which we have their divergent views in this province. We also hope that your work will prove successful and at the end we will be given a report and such recommendations after you have passed across Canada and heard the evidence in different places that will prove of great value to the people of Canada in solving some of our difficulties at least. We wish you all success, and that in every way you will achieve the results you desire.

I have handed a brief in to yourSecretary presented by the Government of British Columbia.

THE CHAIRMAN: Mr. Premier and gentlemen, my first and very pleasant duty is to thank you very cordially for the words of welcome which you have just expressed. Personally - if I may be allowed to inject a personal note for a moment - it is with the greatest possible pleasure I find myself once more in Victoria after an interval of five years. Even a Royal Commission has its moments of relaxation and the treatment

and the pleasures which you have given us here by your hospitality has indeed done much to make our task agreeable.

As you have said, sir, the task upon which we have embarked is one of great difficulty and great significance. The occasion of our appointment is the arrival of the decennial period when the Bank Act of Canadacomes up for revision. The Bank Act of Canada began in 1871 and has been the subject of revisal in Parliament on five previous occasions. It wasfelt, however, on this occasion that the ten years which have elapsed since the last revisal had been ten years of such economic disturbance, had raised so many many difficult problems that it was desirable that Parliament in addressing itself once more to the task of revisal should have the advantage of a complete survey of the financial structure of Canada for its assistance in carrying out that duty.

Accordingly, the Government has seen fit to invite this Commission to make a much wider survey of the financial position than has been undertaken on previous occasions, and a feature of the Commission's work to which we all attach the very greatest importance is this, that we are having problems presented not merely on paper, not merely by written mepresentations and memoranda, but we have been sent, so to speak, en voyage throughout the whole of the Dominion of Canada, and we hope before we sit down to consider our report to have been able to visit all the Provinces of Canada and most of the important cities.

We all recognize how very diverse are the economic views obtaining in different parts of Canada. Each of the Provinces has its own problems to deal with, dictated in part by its climate, in part by its products, in part maybe by its policies. And the advantage of going around-as we are going around to all the different provinces - is that we shallbe able to establish personal contacts with the men who are really conducting the business of the Provinces. Every institution, whether it is political or economic, in the course of its workings is apt to reveal from time to time imperfections and defects, the result of experience; and the advantage of an overhaul from time to time in all our institutions affords those who are the critics an opportunity of expressing their views, and those who are the champions an opportunity of vindicating their position, and out of that controversy frequently it is possible to make improvements.

The system of banking in Canada has steadily progressed. It has never been reactionary. A study of the banking problem has shown how from time to time expedients have been developed, expedients quite peculiar to Canada. These expedients have been involved for the purpose of permitting the institution of banking in Canada to be adapted to the requirements of the people.

One is apt sometimes to think of banks as though they could themselves produce wealth. That, of course, is a mistake. A good banking system is the best possible assistance to business and industry, but it does not itself create wealth.

The advantage of such an inquiry as we are now making will afford-as we hope it will- an opportunity to look

[illegible]

into these institutions as a whole to see how far, in the light of the economic requirements and development of Canada, any alterations or adjustments are required to render it even more efficient than it has been in the past. The world has passed through a time when all institutions have been tried in a way which they have never been tried in the past. Stresses and strains have developed throughout the economic world which have sometimes proved too much for some of our institutions. This is an opportunity now for a general reconsideration of the position.

I do not wish, of course, to say much about our task, because we are just at the beginning of it; but it is important, I think, as this is the first occasion outside of Ottawa when we have met representatives of any of the provinces, that I should indicate the way in which the public and the Dominion can best assist us in our labors. We should like those who are representatives of the different interests in the Province to place before us candidly and frankly the criticisms which they may desire to develop upon the work of the banking system. After all, the banking system is the servant of the people. In the long run, the prosperity of the banks is intimately associated with the prosperity of the country, and it is very important that there should be sympathy between the two interests.

What we want to know is how far the people of the country have found their banking institutions adequate to their requirements - their reasonable requirements, - and whether, if at all, they think that further facilities

or expedients might be developed which would be of use in their daily lives. I have not the least doubt the bankers themselves would welcome any suggestion either of a practical or reasonable character, for the improvement of their institutions. But it will be a great help to us in our task if we have before us the representations and the views as you think they should be in our minds when we sit down to frame our report, and the purpose of our visit is really to elicit the local opinion in each place. We appreciate that each part of Canada has its own problems, its own difficulties.

Our time, unfortunately, is very short. Written representations have already been sent in to us, and I can assure everybody that they will receive our most careful attention. These representations touch on various topics. We quite realise that these topics are not easy to discuss always orally, because they are often topics of great difficulty and complexity, and sometimes it is more satisfactory to express the view in written form. However, we will be pleased to receive representations orally from any representative body that cares to put forward their views or suggestions in that form.

As regards to-day's work, we propose to sit for a short time this morning, and we shall be very glad to hear any views of any gentleman put before us. We shall have to adjourn a few minutes after twelve. Then in the afternoon we can resume so far as we may not have exhausted any representations.

I have before me a list of names in the first place, headed very appropriately by the head of the

municipal corporation of Victoria. I do not know whether his Worship would desire to say anything by way of starting our proceedings, in regard to the particular subjects we have to investigate.

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(Page 215 follows)

If the Mayor is not present, before I go on to the other names with which I have been furnished I do not know, Mr. Premier, whether it would be your pleasure that I should read publicly the suggestions which have emanated from your government. The public might wish that as a start.

PREMIER TOLMIE: If you are pleased to do that, my lord.

THE CHAIRMAN: The Commission have been favoured with various suggestions by the government of British Columbia in a memorandum which I propose to read. It is as follows:

SUGGESTIONS MADE TO THE
ROYAL COMMISSION ON BANKING AND CURRENCY
BY THE
GOVERNMENT OF BRITISH COLUMBIA

The Government of British Columbia desires to call the attention of the Commission to certain phases of banking practices which are intimately connected with industrial operations in the province and the development of its natural resources. On the sound extension of such operations and the rational development of such resources the future of the province and the prosperity of its people very largely depend.

While the province has the resources, and while many of the people have the necessary knowledge to make use of them and to conduct industrial operations successfully, capital also is necessary. The logical source from which such capital can be obtained is the banks and financial

institutions.

The Government is interested in encouraging the establishment of such banking methods and facilities as would result in capital being made available for such operations and development in such manner and on such terms as would be most advantageous to the country at large.

This government therefore prays that this Commission will, as opportunity occurs, discuss and examine the questions hereunafter set forth:

1. Is money being made available by the banks for such operations, undertakings and development as are legitimate and appear reasonably sound? If not, what is hindering the advances of capital Can these hindrances be removed, and how?

One instance may be cited. Some three years ago, the strawberry industry of British Columbia required money to finance a system of berry processing. In spite of the apparent soundness of the proposition and the great possibility that existed that the undertaking would prove a success, the berry growers could obtain no loans from the banks. Finally, the government placed at their service the amount of $70,000. The berry producers only used $36,000, and the success of the undertaking was so great that within a comparatively short time the money borrowed was repaid and the whole undertaking resulted in

the berry producers obtaining a satisfactory price for the berries, which otherwise would have been wasted.

2. Is money being made available by the banks for such operations, undertakings and development in sufficient quantity reasonably to ensure success? If not, what are the obstacles? Can such obstanles be removed, and how?

It is easy to see how unsatisfactory it would be for an undertaking to be financed until it might be within reasonable reach of success, and then to find its resources cut off. The detrimental effect on industry generally would be very great, extending far beyond the particular industry concerned.

3. Is money being made available by the banks for such undertakings, etc., without unnecessary delay? If not, what are the reasons for delay? Can these reasons be removed, and how?

In such cases as the one regarding the strawberry growers, cited above, delay means loss. Such fruit as strawberries must be handled at once when ripe. There is no time to refer to a board two or three thousand miles away, which may have only a very general knowledge of local conditions. While the necessity of referring requests for very large loans to the highest authorities is recognized, it is suggested that a provincial board might be established, with power to make the

final decision on requests for loans up to a fixed amount, say $50,000. Thus an authority fully acquainted with local conditions could deal with such requests without delay.

4. Is money being made available by the banks for such undertakings, etc., at a rate of interest that the undertakings can pay and still be successful? If not, what are the reasons? Can the reasons be removed, and how?

This is a matter of great importance, for in these days of keen competition, restricted markets and small profits a reduction of 1 per cent or even ½ of 1 per cent in the rate of interest charged, in many instances, might mean success instead of failure.

In regard to provincial finances, the government prays that this Commission will consider the following questions:

1. Are the banking and other financial institutions exacting excessive rates of interest for money lent in the province? If so, what justification for such exaction can be advanced? Can such justification be removed, and how?

This is a subject that is very definitely in the minds of the people at this time, and there is a feeling that the financial interests which have undoubtedly acquired such wealth from British Columbia, have taken undue advantage of the province's need for money during the present time of

stress.

2. Could a method be devised whereby the provinces generally could obtain money for certain essential purposes directly from the federal government, more advantageously than they do at present? If so, what steps could the provinces take towards finding and making effective such method?

This question is also in the minds of the people. Many think that the Dominion government with its powers in regard to banking legislation, ought to be able to do something really worth while in the way of assisting the provinces to finance at less cost.

3. In the case of British Columbia, would the settlement on the arable lands of people who would cultivate such lands for the purpose of making a living, tend to strengthen the financial standing of the province?

When it is considered that British Columbia has 23,000,000 acres of arable land, much of which is eminently suitable for settlement and cultivation, the question naturally arises whether the province cannot utilize such land to its own advantage. If the right kind of settlers could be obtained, namely, men who have some knowledge of what is required of them in order that they may be successful, it is thought that, though they did little more than earn a living for themselves, yet the supplying of their needs would give such an

impetus to industrial operations, that the whole financial outlook of the province would be greatl improved.

The government feels that the subjects referred to are well worthy of the consideration of this Commission. It would appear that the basic industries and industrial operations of British Columbia should be able to secure from the banks, when prospects justify such loans, sufficient money to enable them to operate successfully. The prosperity of the whole province depends upon the success of such undertakings, and this government feels that sound industrial propositions should be able to secure the money needed at the time that it is needed, without unnecessary delay, in sufficient amounts to insure as far as possible every success, and at such a rate of interest as the operation can fairly be expected to pay.

While this government recognizes that the banks have given excellent service so far as the establishment of banking facilities is concerned, it prays that in the interests of the industrial devdopment of the country the matters that have been referred to, only in general terms, be fully and completely inquired into by this Commission.

(Signed) S. F. Tolmie

Premier, British Columbia.

I think that we should make these representations part of the record of the Commission, and if I may say so, Dr. Tolmie, they furnish very useful and practical topics for us to address our minds to. They are addressed largely to the banks. They are problems on which we shall have to hear the banks. You point out that in the past the banks have provided excellent facilities but that in the view of your government, and having regard to the special requirements of the province, still greater facilities might be given and that the banks should explore that question and explain to us in what respect they may be able to meet the suggestions which your government has made.

I think, Mr. H amilton, you have heard me read this statement of suggestions to the Commission. Do you think that without special preparation you could furnish us with at least some prima facie comments on the points raised in the memorandum? We would welcome them.

MR. M. D. HAMILTON (Pacific Subsection, Canadian Bankers' Association): I think I am in a position to make a few comments on a few of the points that have been raised.

THE CHAIRMAN: I think we would welcome them, quite understanding that you are just speaking on the spur of the moment, but the problems raised in the memorandum presented by Premier Tolmie are problems with which you are very conversant, and consequently we will welcome and I am sure the public will, some general statement on behalf of the banks in regard to meeting these requirements.

MR. HAMILTON: I have a brief here from the banks'

[illegible]

[illegible] the record of the Commission, and [illegible] these, they furnish very useful and practical [illegible] to address our minds to. They are [illegible] matters. They are problems on which we [illegible] Board. You point out that in [illegible] provinces excellent facilities [illegible] your government, and nearby [illegible] parts of the province, still [illegible] the service and then the order [illegible] explain to us in what respect they [illegible] negotiations with your government [illegible].

I think, Mr. [illegible], you have [illegible] of [illegible] the Commission. [illegible] without special [illegible] some guidance [illegible] comments on the points [illegible] in the memorandum? We would welcome [illegible].

Mr. H. C. [illegible] (Catholic Subcommittee, [illegible] Trustees' Association): I [illegible] in a position to [illegible] comments [illegible] have [illegible].

THE CHAIRMAN: I think [illegible] remembering that you [illegible] referred to [illegible] with [illegible] will [illegible] memorandum.

[illegible] I [illegible]

point of view covering the situation generally, and it might possibly answer some of these points in a general way, if I might present it to your lordship.

THE CHAIRMAN: It is a prepared document?

MR. HAMILTON: Yes.

THE CHAIRMAN: I think that is a very good suggestion.

MR. HAMILTON: The memorandum reads as follows:

To the Chairman and Members
of the Royal Commission on
Banking and Currency.

My Lord, Sirs and Gentlemen:

As representatives of the Canadian chartered banks operating in British Columbia it is our wish to extend to the Chairman and the distinguished members of the Royal Commission on Banking and Currency a most sincere welcome to this province on behalf of the bankers. We are deeply conscious of the importance of your mission and feel duly honoured that British Columbia has been favoured with the opening sessions of your meetings which are to extend throughout this Dominion. We desire to assure you that we stand ready on behalf of the banks to answer as far as we possibly can any questions your Commission may wish to ask us regarding the prevailing banking practice in this province.

On behalf of the Pacific Sub-Section of the Canadian Bankers' Association we beg to submit a brief review of some of the problems encountered

point of view covering the situation generally, and is might qualify cases even of some points in a general way. If I might respond it to your Lordship.

THE CHAIRMAN: Is it a proposed amendment?

MR. HAMILTON: Yes.

THE CHAIRMAN: I think that is a very good suggestion.

MR. HAMILTON: The memorandum reads as follows:

To the Chairman and Members
of the Royal Commission on
Banking and Currency.

My Lord, Sire and Gentlemen:

As representatives of a manufacturing
enterprise having ownership in [illegible] Canadian
it is our wish to extend to [illegible] and
the distinguished members of the Royal Commission
on Banking and Currency a most sincere welcome
to [illegible] capital of the Dominion. We
[illegible] the importance of [illegible]
[illegible] Government to a position
[illegible] with the [illegible]
[illegible] which are in existence
[illegible] Commission. We think it [illegible]
[illegible] money [illegible] enough [illegible]
[illegible] Commission [illegible] to deal [illegible]
[illegible] banking [illegible] Dominion.

[illegible] Board of [illegible]
[illegible] Association [illegible]
[illegible] of the [illegible]

in financing the varied industries of British Columbia. The fact that our seaports are separated by extensive mountain ranges from the land which they should serve, including the vast province of Alberta, creates a natural barrier to transportation and trade, and with most of our valleys running to the south and tapped by communication lines from the United States, there has been a continuous contest since Confederation to divert our trade in an easterly and westerly direction and so link it more closely with the rest of the Dominion. The fact that our relatively small population is so largely confined to a few points on our seaboard, leaving about one-third scattered over a vast area consisting of some sizeable settlements remotely situated, has added to the problem of rendering a banking service to provide facilities needed for development, but despite this and the steadily increasing taxation on banks of recent years, the desire of the banks to serve the public has led to the establishment of branches virtually at all points where the town or district provides a population of 1,000 or more, and the keen competition between banks has in numerous instances in the past led to the establishment of more banking offices than were warranted in some areas.

Lumbering continues to be the principal industry of British Columbia despite the vicissitudes of recent years and it is very closely

interwoven with the business community of our larger centres. Because the loanable funds of the banks are comprised of the savings of the people, which must be kept in readily realizable form, it is not customary for the banks to finance the purchase or carrying of standing timber, and while the Bank Act permits of security being taken on standing timber, this is mainly used for the purpose of providing a background of safety against the natural hazards of fire, flood, etc., encountered in financing the lumber industry. For the same reason banks can only be expected to find working capital for timber operations to the extent where it is reasonable possibly to liquidate such loans annually without impairing the efficiency of the relative operation so that when seasonal shutdowns arrive the loans will liquidate naturally from the marketing of the products. Logging operations are usually carried on at points along our broken coast line and in the interior some distance removed from towns where bank branches are located and consequently there is difficulty in checking closely such Section 88 security as is available. The latter is mainly confined to logs actually in the water as those lying in the woods still require considerable expenditure to place them in booms and are subject to a great fire risk at certain seasons against

[illegible] with the business community [illegible]
our larger centers. Because the local
roads of the banks are [illegible] of
savings of the people, [illegible]
[illegible] readily realizable from, [illegible]
any for the banks to finance [illegible]
carrying of [illegible] liquidity, and while [illegible]
[illegible] of [illegible] [illegible]
[illegible] there is [illegible] used for a
purpose of [illegible] a [illegible] of [illegible]
against the national [illegible], [illegible]
etc., encountered in financing the lumber
industry. For the same reason banks can
be expected to find working capital for the
operations in the woods where it is [illegible]
able possibly to liquidate [illegible] [illegible]
without [illegible]. [illegible] of [illegible]
tive operation to find [illegible] [illegible]
arrive the logs will liquidate [illegible]
from the marketing of the product. [illegible]
operations are usually carried on at points
along our [illegible] coast line and in the [illegible]
[illegible] [illegible] [illegible]
[illegible] [illegible] [illegible]
[illegible] to [illegible] [illegible]
[illegible] [illegible] [illegible]
The latter is really confined to [illegible]
in the water as [illegible] [illegible]
still require considerable [illegible]
[illegible] [illegible] [illegible]
[illegible] [illegible] [illegible]

which insurance would be prohibitive. Even in loaning against booms of logs there is always some hazard from sudden storms in towing these to market and, finally, there is the resulting credit risk if the logs are sold on time to a sawmill in a weak financial position. Furthermore, the reasonable priority of wage claims imposed by the Bank Act, together with the necessity of seeing that royalties due to the government are allowed for and the occasional uncertainty of markets, necessitates due caution to be sure that the logger has sufficient equity in the logs to provide the necessary margin for banking security. It therefore becomes necessary to rely very largely on the proven character and capacity of the logger with due regard to the background which he has by way of timber or other fixed assets free of emcumbrance in case the log security does not realize sufficient to retire the relative loan. As to the financing of sawmills, our larger plants are in close proximity to the larger centres so the checking of the security does not present the same difficulties and of course the lumber product forming the security is usually well advanced to the marketing stage and sometimes much of it is sold on firm contracts.

Many of the smaller sawmills are scattered throughout the province and up the coast at somewhat remote points, but provided their liquid position is satisfactory and their fixed assets sufficiently clear to provide adequate support, they are accorded the same credit proportionately as the larger concerns. The financing of shingle mill operations is conducted much in the same manner, but most of the cedar bolts used for this purpose are taken out by hand labour and the woodsmen are usually under contract to the mills or timber operators so financing of their needs is usually done through the contracting parties. Similarly the production of poles and like products by individuals, often with little background for credit, is financed by the purchasers of these products, who in turn very often receive an advance payment at the beginning of the season from American buyers desirous of making forward contracts and in addition borrow from the banks against their available security. With respect to ties -- railway sleepers -- however, which are an important feature in providing winter work for settlers in outlying parts, the banks make advances against such ties as are hauled to the railway siding when duly accepted by the tie inspector for the

railways against the security of the relative assigned account. Another feature of the lumber trade is the financing of brokers buying lumber from the mills and selling it to lumber yards on the prairies or in eastern Canada. This is mainly cared for by time drafts on the purchaser and it is of course necessary for banks to require further security to provide against refusal of shipments or the failure of the eastern buyer before payment of the relative draft. Under this heading we would also deal with pulp and paper forming an important part of our forest production, but this is mainly in the hands of a few large companies at the coast which readily receive such banking assistance as may be required, based on their liquid marketable assets, and these companies in turn usually finance the contractors who supply their raw products to them as they are in a better position then the banks, through their woodmen, to keep in touch with such operations and recoup themselves when the products are finally settled for.

Despite the mountainous nature of our province agriculture ranks next to lumbering in value of production. The delta land of the Fraser and its extensive valley, while mainly devoted to dairying, is also rich in other agriculture production, including such special items as hops and tobacco.

On Vancouver Island there are several extensive districts devoted to mixed farming, while poultry and small fruits form the product of many small holdings. Farmers engaged in these activities usually borrow from the banks individually, credit being limited to expenses for production and harvest with due regard to markets and the necessary background to be provided by the position of the land and the proven character of the borrower. The growing of vegetables and small fruits is also a feature of the Fraser Valley, but the main fruit crop of the province is the apple production of the Okanagan and several areas adjoining it. Important features of the fruit areas are the co-operative organizations of growers formed into local associations for each district and while the packing and selling charges on fruit are financed by the banks for such associations, the individual grower borrows direct for his harvesting expenses and other costs of producing the fruit. Loans to individual framers frequently rest largely against the security afforded by their dairying herds, with repayments coming from their monthly milk cheques from the central marketing organization, but there is also extensive financing needed for the larger cattle ranches of the upper country against sizeable herds. Our beef industry is

greatly hampered by its distance from eastern and overseas markets and ever since our cattle were shut out from our natural United States coast market by the Fordney tariff, the live stock business generally has been at a low ebb. Difficulties have been encountered from grasshopper pests and drought and there is always the necessity of growing sufficient winter feed for the herd, for which purpose irrigation is often required as most of the larger ranges are located in the dry belt of British Columbia. Of recent years the sheep industry has been substantially enlarged in some sections and this is, of course, subject to much the same disadvantage respecting availability of markets and runs the risk of loss by depredations of cougars and other wild animals. An occasional severe winter or late spring also presents difficulties, but in general the main trouble is in the distance from available markets. Compensating advantages are the abundance of bunch-grass range and water in the interior and the milder winters than on the prairies for even though the temperatures are in part severe there is absence of blizzards and some shelter in the valleys.

Mining comes next in importance and the demand nature of our loanable funds naturally limits the assistance that can be

[illegible]

rendered to mining. Banking funds cannot be used for the financing of prospects because of uncertain repayment and loans against metals are of necessity confined to ore separated from the mine or concentrates usuall in bins awaiting shipment or else in the shape of bar metal at smelters en route to market. Producing gold mines have little need of extended banking assistance as their product is so quickly converted and the production of our base metals is mainly in the hands of large companies adequately provided with working capital and affording sufficient background for any temporary banking assistance needed in marketing such products. The individual miner is able to forward his gold dust and nuggets through outlying branch banks obtaining advances against it pending full settlement based on the actual certificates of the assay office.

As to fisheries, the main product for many years has been canned salmon and since the individual fishermen are usually under obligation to the canners taking their product for boats and nets, banking accommodation must be mainly confined to the manufacturer of the product, from whom security is taken by way of section 88 or warehouse receipt on canned salmon in storage awaiting shipment, much of which has been sold on

forward contract. With improved methods of freezing, the fresh fish trade has become increasingly important, particularly the halibut, which finds a market mainly in eastern centres and the operators are usually large companies whose banking accommodation is afforded along the lines usually employed with other large food purveyors elsewhere. Pilchards are mainly caught on the west coast of Vancouver Island and form an important part of our fisheries, the oil and meal being generally in fair demand, but with the uncertainty of markets and limited knowledge of the habits of the fish, difficulties are encountered in bank financing, which, however, is usually confined to amounts fully secured by the resultant oil and meal awaiting marketing. For many years past the salt herring trade has been a feature of Vancouver Island fisheries, but this has largely been in the hands of Japanese contractors and as the fish mostly found an outlet in China international difficulties have recently hampered the trade: financing is usually confined to irrevocable letters of credit furnished by the Oriental buyers.

The foregoing relates to our main industries and such manufacturing as is possible apart from that relating to lumber and wood products is largely confined to

[illegible] continent. With [illegible] methods of processing, the fresh fish trade has become increasingly important, particularly the halibut, which finds a market mainly in central Canada and the operators are usually large companies [illegible] building accommodation is afforded along [illegible] lines usually employed with other large food purveyors elsewhere. Fishermen are mainly resident on the west coast of Vancouver Island and form an important part of our population. The oil and meal boom currently in full demand, but with the uncertainty of market is and limited knowledge of the habits of the fish, difficulties [illegible] encountered in back fishering, which [illegible] usually confined to amounts fully [illegible] by the prominent oil and meal manufacturing [illegible]. For only [illegible] the milk herring trade has been a [illegible] of Vancouver Island [illegible] but [illegible] largely been in the hands of American [illegible] and as the fish mostly found [illegible] in deep [illegible] [illegible] recently increased the trade [illegible] is usually confined to favourable [illegible] of crude [illegible] by the [illegible] [illegible].

The foregoing relates to our main industry [illegible] [illegible] as a possible source [illegible] to timber and wood products is [illegible] to

requirements of our forest, fishing and mining industries. The manufacture of loggi machinery, marine engines, lumbermen's clothing and logging equipment is, we believe, finance in the same way as pertains to manufacturing in other parts of Canada, and this also applies to most of our wholesalers. Indeed, among our manufacturers and wholesalers there are many western branches of Canada-wide orga izations whose financing is arranged at head-quarters and loans are usually contralized there which relate to goods in warehouse on the Pacific coast and through our branch syste thereby likely employing some of the deposits of the banks in British Columbia. Similarly, it is the case that most of the grain in elevators a waiting shipment here provides security for loans on the books of the banks at prairie points which are in turn retired here by bills of exchange supported by the necessary shipping documents for exportation of such cargoes. The increasing use in recent years of the Panama canal for shipments of grain to Europe has been an important feature of business at the coast and indeed during the past winter, with lumbering at such a low ebb, it provided much of the money circulating in trade and the disbursements of transportation charges on the grain en route assisted materially at railway points in the

interior. Banking credit is largely used in the financing of these grain exports as well as our extensive and growing lumber export trade, much of which is against lette of credit from foreign purchasers providing for payment on presentation of draft and documents in New York and London. With the growth of this shipping it is natural that the imports should steadily increase also a Vancouver banks frequently provide letters credit for the importation of such products as well as for the freight and insurance. They also assist in the manufacture of thes imports where required but within the lines prevailing elsewhere.

Another feature of business in this province is the existence of many a for eastern Canadian and British houses, so of whom operate on commission while others on a more independent basis, and financing their requirements is largely provided by banks in arrangement with the principle represented, or by warehouse receipt on products awaiting sale. The financing of our retail trade does not differ much from banking practice elsewhere in Canada, but, generally speaking, the need for extending monthly credit to many customers and the l of working capital by so many small store-keepers renders it necessary for the whole-

salers to whom they are so largely indebted anywa to carry such retailers, and banking accommodation must be limited to quite temporary advances pending collection of monthly accounts. Very often the drafts of the wholesalers in payment of their bills are being presented to the banks befo the latter have had time to clear the currency and cheques deposited in such accounts to meet these maturing obligations. This is particularly the case in cities, but with the country merchants, and particularly those in business for longer periods than the average city retailer, working capital has been accumulated through profitable years, and is available for use in carrying customers during periods of business depression. The country merchant very often extends credit to homesteaders and others who really have little, if anything, clear of statutory exemptions, and then such a merchant usually takes the settlers' products in trade, and frequently carries such accounts for much longer terms than could safely be granted from the loanable funds of the banks. Every branch bank pays particula attention to banking by mail to facilitate the business of those located at a distance, and in ou lying settlements, and special forms are provided for mail customers so as to minimize their letter writing. Country branches are also equipped to sell drafts and remittances payable in foreign lands, a service which is used very freely by foreign-born workers in our logging

camps and mines. At every important center the branch banks are equi pped with safety deposit boxes which ca be rented for a small annual f ee and afford protection from fire and theft to valuable papers. This and other services are made available in many outly ing parts of the province, through the branches of the chartered banks.

We trust that the foregoing will make clear some of the difficulties encountered in providing banking facilities over a vast yet sparsely populated area. Sunstantial capital investment is needed for development of this Province, particularly with reference to our lumbering and mines, and with the former costly logging railways are necessary at many points to get the timber down from the mountain sides to the sea, because in the course of time much of the timber along the Coast has been cut and logging companies must go further afield. It is only possible for the banks to supply a portion of the working cap ital for such ventures, and consequently the fixed capital must come from other sources and everything possible is done to encourage such investment and among the advantages are our banking services which are usually made readily available for these larger enterprises wherever they locate.

We have confined our remarks to the problems which appear to confront British Columbia in particular, but like the rest of Canada, our Pro-

vince is so dependent on the sale of primary products in the shape of grain, lumber and metals to foreign lands, that in the final analysis, world prices for such products must necessarily govern the banking assistance rendered these industries. Another feature is our distance from world markets, and larger centers of population on this continent, and finally there is an important barrier in the long rail haul of our goods to the nearest natural market for our main products, which is rightfully the western half of the prairie provinces.

All of which is respectfully submitted on behalf of the Pacific Sub-Section of the Canadian Bankers' Association.

(signed) M. D. Hamilton.

(signed) E. W. Lemprey.

(Page 245 follows)

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THE CHAIRMAN: We are very much indebted to Mr. Hamilton for his instructive picture of the conditions under which he works. May I ask, Mr. Hamilton, would you be in a position just now to take up some general topics if we put them to you, or would you prefer to deal with them later?

MR. HAMILTON: I might speak briefly on one or two of them, my lord, but I would like a little time perhaps to consider my reply.

THE CHAIRMAN: For instance, here is an instance: The government in the statement they have given to us refer to one specific instance of aparticular enterprise with the viewthat you are being hampered by not being able to extend banking facilities to what I would consider a very attractive enterprise, that of the growing of strawberries. Under section 88 are your powers such as to enable you to take advantage of a group of that kind?

MR. HAMILTON: No, my Lord. Section 88 provides for loans only to the owners of the goods. The case referred to was that of a co-operative association which did not hold ownership in the goods, the ownership still remaining in the hands of the individuals forming the association.

I do recall something of that particular transaction, but there are certain features which, because of the confidential nature of the relations between the banks and their customers I cannot disclose as they are inviolate everywhere, but there are features which affect the assistance finally rendered by the government. As I recall it, the process is limited. We are ready

to give advances, and I believe the government was willing to give a guarantee, under the Industries Act, and the banks without delay - there was no undue delay in that case - granted the credit, provided the government would guarantee it, but it was then found out by solicitors that the act was not broad enough to let the government give such guarantee.

THE CHAIRMAN: That is the Industries Act?

MR. HAMILTON: Yes, my lord, the Industries Act. We heard nothing further about it, and the government decided to advance the money under the Industries Act.

THE CHAIRMAN: What rather strikes one, Mr. Hamilton, is that here is an enterprise, possibly speculative at the outset but which has apparently turned out very well and under your interesting system of making advances you might wish to render assistance; would you wish to have section 88 altered to enable you to take part in such an enterprise; in other words, do you find yourselves hampered and restricted by the existing powers in assisting industries where you would like to assist them?

MR. HAMILTON: We were going to ask for the protection of the government and they wished to give it, but under section 88 it was found that the ownership of the goods was imperative---

THE CHAIRMAN: There was a legal impediment?

MR. HAMILTON: Yes, my lord; that was overcome by a local co-operative organization, notably in the fruit industry, where the owner assigned his ownership of the goods for the express purpose of having it hypothecated to the bank. In that particular case we took the trouble to provide the necessary forms to firms in the Okanagan,

but it was not gone on with, when it wasfound we could not get the government guarantee.

THE CHAIRMAN: One of the things we would like to explore is whether the bankers in their day to day contact with customers find themselvesunder the existing code hampered in assisting enterprises where you would otherwise be willing to assist; that is, where you had a man in whom you had confidence, and found yourself unable, by reason of legal or other difficulties, to assist him. He is in aposition to give you the security necessary, but other difficulties of that kind arise. Are there any other points where more widening of your existing powersor some new power might assist you?

MR. HAMILTON: Occasionally there might be, my lord but generally speaking most of such organizationshave no assets and there is an unwillingness on the part of the members to take arisk which they might reasonably do--

THE CHAIRMAN: In giving apersonal guarantee?

MR. HAMILTON: Yes, my lord, in giving a personal guarantee. Although we have gone so far as to specifically limit the guarantee so that a farmer with obvious means would not be assessed for more than a certain amount, but many have no assets and if they were to give a guarantee the amount would be so limited that a farmer with no means would not suffer beyond a certain point.

THE CHAIRMAN: Would the co-operative institution be liable to you only to the extent of its corporate funds so that its members' responsibility is not pledged?

MR. HAMILTON: For whatever their equity might be, my lord. They usually only have apacking house and the good will, whatever that might amount to.

But, my lord, we must aloays bear in mind that our funds represent the savings of the people, and we must - before loaning, make sure that we can get back our money, always bearing in mind also that fruit is aperishable commodity and not like the wheat which is stored in government elevators, and there are other features we must remember and so, due to the very nature and character of the commodity, we are hampered in our ability to deal with it.

THECHAIRMAN: That answersthat particular question but the memorandum raises one or two general topics on the order I have suggested, namely, whether the banking institutions are at the moment, with the facilities at hand able to assist enterprises to the extent they may want to assist them, or are there difficulties encountered in their daily practice which prevents them from doing what they would otherwise be able to do? These are general qestions, no doubt, and any man who is working under this system, encounters difficulties as he goes along, and any man who is immersed in the business knows the "snags" - if I may so put it, and we want to know if you found that the existing system hampered you in assisting enterprises, where they were legitimate businesses, and you would really like to assist them, only you found yourself restrained in some way.

MR. HAMILTON: Answering you briefly, my lord, it is largely the character of the funds wehave to lend which in the final analysis hampers us. They are of a demand nature and not time funds. They must be kept ready at all times.

THE CHAIRMAN: Onequite recognizes this,

that you cannot contribute fixed capital for undertakings. That is the province of other institutions altogether. They must be liquid and subject to call. It is your business to finance undertakings which turn over.

MR. HAMILTON: Quite so, my lord, and we do. Might I say, in respect to working capital, that it is in general the practice for bankers to finance between the peak of the requirements of a going industry, and the low point where the goods are down to the lowest stages of the year, aiming always at annual liquidations. That has been one of our fundamental aims, so that at least once a year we can count on that money coming back from that particular industry, so that that portion of working capital is limited by fixed amounts between the peak and the low.

THE CHAIRMAN: That helps to smooth that out.

MR. HAMILTON: Yes, my lord.

THE CHAIRMAN: Yes, I follow you there.

SIR THOMAS WHITE: One point, your lordship, I would like to bring out.

Mr. Hamilton, in making loans under Section 88, do you take into account the character of the borrower, and his financial standing, as well as the security you get under Section 88?

MR. HAMILTON: Always. That is one of the fundamentals of the loan.

SIR THOMAS WHITE: Supposing you had an application from a borrower, who had practically no capital, or from a co-operative organization: It might be true that you would be able to get security under Section 88 upon the

production of the operations for the year. Would you be content with that?

MR. HAMILTON: No, sir; not without character. Because Section 88 permits your security to remain in the hands of the borrower. It would be impossible to keep an officer of the bank there, in any case. By the very working of the Act, you do not assume to take possession of the security, but leave him the fullpower to deal with these goods and turn them over, so long as you are satisfied he is doing it honestly and rightly.

SIR THOMAS WHITE: Taking into account possible fluctuations in prices?

MR. HAMILTON: Price fluctuations, of course, yes, Sir Thomas. Our custom is to get monthly statements of the goods on hand. He makes a declaration of what he has, and we make examinations from time to time, not necessarily every month, but periodically, as opportunity arises, and we check the values with the going markets, but always with this thought in mind, that they are in his possession of necessity, and the character and the proven stability of the man you are trusting must come into the picture very largely.

HON. MR. BROWNLEE: Mr. Hamilton, may I ask this question? Do you care to state to the Commission here at this time the extent to which you have any authority established in British Columbia for the purpose of passing upon loans up to a certain amount? You have your Provincial supervisors, have you not?

MR. HAMILTON: That has been stated by our General Manager in an annual report, and whilst I might make a general statement, I think a matter of that kind should preferably come from the head office.

HON. MR. BROWNLEE: Would you be willing to give us that in a private statement later on?

MR. HAMILTON: I would be glad to do that, also to make public such facts as have been made public in an annual report of that bank three years ago. It was the bank with which I happened at that time to be connected. I am to-day representing the bankers, with my confrere, Mr. Lemprey.

Briefly speaking, it is this: The bank with which I am associated has over one hundred and fifty thousand borrowers. Eighty-five per cent. of the number of those borrowers have loans of one thousand dollars or under. Any one of our managers can loan up to one thousand dollars without asking the superintendent or anybody else. So that, as regards eighty-five per cent. of those borrowers, if refusal is made, it is because the manager is satisfied in his own mind that it is not a proper loan to make.

Beyond that, as has been stated in our last annual report, ninety-six per cent. are for five thousand dollars or under, and those come within the discretionary limitations of the superintendent. Going higher than that, it is necessary to refer to our headquarters in the East. I would be very glad to disclose the various limitations to the Commission.

HON. MR. BROWNLEE: Would you be prepared at the same time to submit to us - because I would like this information anyway - a statement covering the Co-operative Association Act in this Province? The reason I ask that is that it has been suggested that under section 88

as regards the wheat pool organizations in the prairie provinces, they were able to give the necessary security under section 88, notwithstanding the fact that the Co-operative Association was not the owner of the goods, and what I am curious to learn is what the difficulties are in this Province which distinguishes you from the prairie provinces, who were able to finance these pools and take the security under Section 88.

MR. HAMILTON: I cannot speak for the prairie provinces because my memory does not go back that far. I was a very young officer in the bank when I was on the prairies, but, as I said before, there is a clause in the contract with the Association by which the owner expressly turns over his ownership in the goods to the Association to be pledged with their bankers, and that is so with our fruit associations throughout the interior, and such branchs of them as are here. In this particular instance which I read and that brought forward by the Government, they did not have that same contract with the growers, which gave the right in the goods to the Association, and the section expressly states that the ownership must be in the borrower.

HON. MR. BROWNLEE: But the Fruit Growers' Association -

MR. HAMILTON: Their contracts provide for that. I took the trouble in this particular instance to send a copy of that contract to the people with whom we are dealing in this strawberry organization, so that they could take that step if they saw fit, but they did not come back. Credit was authorized, but the Government could not guarantee it, and we heard nothing beyond that.

SIR THOMAS WHITE: How many superintendents are there in Canada? There are superintendentsof regions and superintendent for each of the branches? Are the British Columbia superintendents domiciled in British Columbia so that they may give immediate consideration to any application for a loan, beyond the power of the branch manager?

MR. HAMILTON: Yes, Sir Thomas. Mr. Lanprey is the Superintendent of the Bank of Toronto, as well as the Manager of the Vancouver Branch.

SIR THOMAS WHITE: Supposing you have a loan beyond the jurisdiction of the superintendent; briefly, what is your practice?

MR. HAMILTON: If it is immediately necessary to have adecision, as it is frequently, we telegraph briefly the particulars, the purpose of the loan, the source of repayment, what we know of the securities and the people behind it and our experience with them, and, of course, our own recommendation, based upon our manager's recommendation, and we get an answer over night from our head office. That is frequently done - very very often.

THE CHAIRMAN: I understand the local manager has jurisdiction up to $1,000.

MR. HAMILTON: I might say, my lord, that every local manager even of the small sub-branches in the city has that. In the towns we may vary that according to the local needs. For instance, in a town of two or three thousand inhabitants, the manager may have jurisdiction up to five thousand dollars.

THE CHAIRMAN: Because he is a gentleman of

larger experience?

MR. HAMILTON: Yes, my Lord.

THE CHAIRMAN: But in the majority of the districts the manager has jurisdiction only up to one thousand dollars.

MR. HAMILTON: One thousand dollars is the minimum; ordinarily it is two thousand dollars.

THE CHAIRMAN: Yes, I follow that.

MR. HAMILTON: And that is graded up to ten thousand to fifteen thousand dollars in the city.

THECHAIRMAN: I think perhaps we had better adjourn until two o'clock. I may say in passing now that any members of the public who may wish to submit documents or who may have any observations to make might hand their names to Mr. Plumptre, the Secretary, in the interval so that we may call upon them this afternoon. I hope we shall have some assistance of that sort.

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---- The Commission adjourned at 12.10 P.M. to resume at 2 P.M.

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AFTERNOON SESSION

THE CHAIRMAN: Gentlemen, his Worship the Mayor is here. He desires to say a few words on the resumption of our proceedings.

MR. LEEMING (Mayor of Victoria): Your Lordship and members of the Commission, first of all I wish to apologize for not being present this morning to officially welcome you on behalf of the City of Victoria. Owing to the stress of business I was so detained that the matter got beyond me. However, I now on behalf of the City of Victoria wish to extend to this Commission the heartiest welcome. The City of Victoria, the Capital City of British Columbia, is known as the City of gardens and flowers, and we try as far as lies in our power to make those people who come here to stay with us for a short while as happy as possible; we hope they will enjoy the hospitality of Victoria in every way possible. If you have time while you are here to go around a little and visit our places of interest I am sure you will enjoy them. We have our government buildings; we have a fine Provincial library; we also have the Astro-Physical Observatory as well as an observatory at Saanich. We also have Mr. Buchart's gardens which I believe you visited yesterday. And I am convinced that you will find in the legal profession here and members of the Government gentlemen who will see that every moment of your visit in Victoria is one of happiness.

I appreciate the fact that you have indeed a very very important mission to perform, and I am sure that

the deliberations of your Commission will be helpful to the Dominion of Canada generally.

On behalf of the Citizens of Victoria I again wish to extend to you a warm, hearty and personal welcome.

THE CHAIRMAN: We are all very much indebted to the Mayor for his very kindly welcome to Victoria. We have had a chance already of visiting the beautiful gardens to which he has referred, and have also visited the Parliament Buildings. We only wish our stay could be longer to enjoy the other pleasures to which he hasreferred.

Taking advantage of the Mayor's presence, we might ask whether, as Mayor of the municipality here, his relationship to the banking system in Victoria has been satisfactory, or if you have had any financial difficulties in connection with the raising of funds, or in any other way, or whether you would like us to consider any matters affecting your municipality from a financial point of view. If you are able to throw any light on that position we will be very much indebted to your Worship.

THE MAYOR: I shall be happy to say something on behalf of the City of Victoria and its relations with our banks. Our bank is the Bank of Montreal. Under the Municipal Act, under which we operate, cities are permitted to borrow from the bank current loans to the extent of the amount of the annual levy plus the arrears of taxes that are due to the Municipality. That is the full amount to which we can borrow for current use. Naturally we do not borrow that amount of money because we do not need it. But the bank always, so far,

has loaned to the City of Victoria any money that it requires within those limits.

We were paying five and a half per cent. per annum interest, which is the lowest rate paid by any city in the Province, and we share it with Vancouver. When the bank rate of interest was reduced to five per cent. the bank immediately gave the city the benefit of that half per cent. So to-day we are paying five per cent. per annum interest on the amount of money we owe from day to day.

Our taxes are hypothecated to the bank to repay this loan, and as they come in from day to day they are deposited. We have a special arrangement whereby we get prepaid taxes, and this money automatically passes into the bank. We have a special account for its reception, and it is daily cleared out, so that the bank gets immediate repayment of the money.

Our relations with the bank have always been most cordial. If we want the bank to give us any advice it generally does, without any pressure. Of course, their advice is very guarded; they are not forecasting exchange rates or anything of that kind, or whether the financial market willbe good or bad for the sale of bonds.

I have nothing to say other than words of commendation for the bank as far as the City of Victoria is concerned.

THE CHAIRMAN: With regard to raising capital funds for your development, improvement and so on, you do that by the sale of bonds?

THE MAYOR: We do sell our bonds, yes. But the Bank of Montreal, if it chose to purchase our bonds, would

have to do so in competition with other banks and banking investment houses.

SIR THOMAS WHITE: You call for tenders?

THE MAYOR: Yes, we call for tenders. At the present time, we are selling some of our bonds across the counter.

THE CHAIRMAN: What is the extent of the municipal indebtedness?

THEMAYOR: Our indebtedness is about $17,000,000 with about $4,000,000 in the sinking fund.

THE CHAIRMAN: What rate of interest are you paying?

THE MAYOR: On our bond issue?

THE CHAIRMAN: Yes.

THE MAYOR: Probably between four and ahalf and four and three-quarters per cent. In 1920, 1921, 1922, 1923, 1924, after the war, our sinking funds were in pretty bad condition, and in order to pay that rate we had to refund, and at that time we had to borrow our money with the clause of New York in it, payable in New York as well as London, and Montreal and other cities in Canada.

THE CHAIRMAN: Have you any idea where your bonds are held?

THE MAYOR: Largely in Eastern Canada and in London.

HON. MR. BROWNLEE: Have you any large percentage payable in New York?

THEMAYOR: About $4,000,000 to $4,500,000 of our debt has got that New York clause in it.

THE CHAIRMAN: That does not necessarily mean that

it is held there.

THE MAYOR: But the interest is payable in New York and that, of course, has meant a lot of money. How that can be handled I do not know.

HON. MR. BROWNLEE: That is, you have got to pay in New York funds on all of it?

THE MAYOR: We have got to pay in New funds on all of it.

THE CHAIRMAN: We are very much obliged to your Wors for your contribution.

Therehas been handed to me a list of gentlemen who have been kind enough to offer their assistance this afternoon. The first name on the list is Mr. Tisdall, of the Duncan Chamber of Commerce. I understand he is leaving town later in the afternoon, so perhaps he will be good enough to make his statement now.

MR. TISDALL: (Duncan Chamber of Commerce): Lord Macmillan and Members of the Commission, I was not sure when I decided to approach the Commission as to whether my request would be in order. Not knowing what the scope of the Commission was we prepared a resolution in the Duncan Chamber of Commerce which reads as follows:

RESOLVED:

That the Government take steps to establish a bank in the Orient so that direct financial connection may be made between Canada and the Far East.

Failing a government bank or the opening up of Oriental branches by one of the existing Canadian banks, that the government amend the

Bank Act to permit one of the existing British banks in the far East to establish branches in Canada without any restriction.

Having lived most of my life in the Orient and deciding to settle down in this part of the world, it has always struck me in the few years I havebeen here that it was a strange thing that while you could not pick up a daily newspaper in the last few years but what you saw in it that the question of extending Oriental trade, the trade between the Orient and Canada was of vital necessity - perhaps not of vital necessity to Eastern Canada, but still of vital necessity to British Columbia primarily, and, as events turned out, would have been of immense assistance to the Prairie provinces- it seemed to me it was an extraordinary thing, situated as we are in Canada the nearest point to the teeming millions in the Orient that there was no bank, no what shall I call direct financial connection between Canada and the Orient

As an example of that, I used to buy occasional drafts and send them to China and vice versa. I went to one bank and I bought a draft. When I got the draft I found it wasdrawn on the Dutch bank. In China, the European countries and the UnitedStates consider it necessary to have very large banking representation. There are I think now either three or perhaps four English banks; there are three or four American banks; there is an Italian bank; there is a Belgian bank; two or three French banks, and aGerman bank, as well as a countless number of Chinese banks. The only important currency that is not known in the Far East is the Canadian dollar. You can go into any banking institution you like in China

with the Canadian dollar and the bank will tell you "We do not know anything about the Canadian dollar , you had better do it through the United States". Let it go through San Francsico or New York, that is what they will tell you.

I need not go very deeply into the question because Sir Charles Addis, who is very notable in the world of finance, has spent a good deal of his life also in China, and there is no use for me to attempt to teach Sir Charles anything, but I think the people here will realise the situation. There was just asmall paragraph in the address of the Canadian Bankers Association, and that was that we, I think, finance shipments of dried fish to China but naturally we did it against the bankers' foreign letters of credit. You know, it isnot so easy, gentlemen, to get a banker's foreign letter of credit. Now and again you want to buy Canadian produce. A man might not have the cash to deposit for a foreign letter of credit to pay the people who are selling it to him in Canada. He may have securities, but he cannot go to th bank in Hong Kong, the Dutch bank or theFrench bank and get them to take those securities to secure the loan. You can do it, yes, but it will cost you from one to thre per cent., and that kills the business right away.

Gentlemen, that is the position as I see it with regard to the trade, and I consider it isa tremendous handicap to Canadian trade, the fact that there is no bank established in the Far East.

THE CHAIRMAN: Thereispower, of course, now in the banks to establish branches outside of Canada.

I know in London that is the case, to a considerable extent, and in the West Indies, and, of course, to some extent in the United States and Europe. Would your purpose be met if they were to extend their operations by establishing in Hong Kong and some other parts of the Orient branches of one or other of the Canadian Banks?

MR. TISDALL: I think, my Lord, that if there is going to be any great increase in Canadian trade they will have to have branches established all over the Orient, not only in China and Japan but in India,

THE CHAIRMAN: Your resolution suggests that there might be a Government bank.

MR. TISDALL: The reason for that was, that some three years ago I was speaking to Prime Minister Bennett; I had some correspondence with him and I wrote him a small memorandum , and I also later on, when the Regina meeting was on with the Prairie Premiers, sent them a copy of this, and I suggested to Prime Minister Bennett, that in viewof the fact that China was a silver using country and it would be almost inconceivable that the use of the silver metal in China would go out, it must be the currency of China, and

(Page 265 follows)

in view of that and the further fact that the Dominion and the prairie governments were at that time tied up with wheat which they were wanting to get rid of and were doing all they could to help the price of silver rise, I suggested to the Prime Minister that it would have helped the world generally speaking, if the government wished to get rid of the wheat, that the time was absolutely a unique one, the price of silver being below the cost of production, to establish a bank, preferably a government bank, there.

I also suggested that they should attempt to sell wheat in China against silver at a much higher price, somewhere near to the cost of production, which would be somewhere around thirty-six or forty cents. It was then about twenty-four cents an ounce, I think. I suggested that if they did that they could meet the competition in China for the selling of wheat and flour by taking silver against it because inevitably, sooner or later, the price must come back to the cost of production. In the meantime it actually has come back to the cost of production more or less.

SIR THOMAS WHITE: Was there not a Canadian bank that opened a branch there following the war?

MR. TISDALL: Yes.

SIR THOMAS WHITE: It was just in my memory that there was one branch opened.

MR. TISDALL: No, it was a subsidiary of the Union Bank of Canada. They started a bank there, and the other was a New York bank. I was sent out by the directors to liquidate that bank.

THE CHAIRMAN: Why had it failed?

MR. TISDALL: Because they went into China at the wrong moment. Silver was then around one dollar an ounce. You will remember the time when silver was very considerably up in price.

THE CHAIRMAN: Is that all you wish to say?

MR. TISDALL: I think so.

THE CHAIRMAN: We are very much obliged to you for a very useful contribution.

THE CHAIRMAN: I understand that there is a representative of the Victoria Chamber of Commerce here. Is he present at the moment?

MR. R. H. B. KER: Your lordship and members of the Commission, in the absence of the President of the Victoria Chamber of Commerce I have been asked to represent that organization here to-day and to welcome you to Victoria, and to express our appreciation of the opportunity afforded for anyone to come before you and present his views on banking. As an organization we have no special views to placd before you to-day. The matter was considered by our directors and it was thought that it could be left to individuals concerned if they wished to appear here and present their own views, but as an organization we decided not to present any views.

I wish to take this opportunity to say, my lord and members of the Commission, how much we appreciate your coming here and holding such an open meeting, hearing everyone who wishes to appear before you, and at the same time, speaking personally, I think this country has reason

to be proud of its banks because we have not had a single bank failure in this country in the past ten years which was one of the most difficult business periods in our history.

So far as your deliberations are concerned, I am sure that the country will look forward to them with the utmost interest, and whatever may be your report I am sure it will be received with the greatest respect. As your lordship stated in your address at luncheon to-day before we can have prosperity in this country we must have confidence and credit. I think that we must have confidence in Canada as a whole, and as well confidence between the different sections of this country and confidence between individuals. Confidence between the different sections of this country is sadly lacking at the present time, and anything that your Commission can do in that direction I am sure will accomplish a great deal of good and be of very great value to the country as a whole. There is so much unrest and dissatisfaction, naturally, under the present conditions of the dppression that we hear all kinds of radical views expressed, but when your hearings are completed and your report is made public I am sure that it will do a very great deal to re-establish that confidence within our country which will have such a great bearing upon its future prosperity.

I should also like to say that the country is very fortunate indeed in being served by such a body composed of the able gentlemen we see sitting on this

Commission, and I am sure that we are all grateful that you are able and willing to give up your time and services to this work.

THE CHAIRMAN: We are very much obliged to you for your kind words of appreciation. I understand that the Victoria Chamber of Commerce in its corporate capacity has not any specific criticisms to offer upon the banking system.

MR. KER: That is correct.

THE CHAIRMAN: Is Mr. Mayhew supporting you?

MR. KER: He was here this morning, my lord, but he told me before lunch that he was not sure that he could get back in time this afternoon.

THE CHAIRMAN: I see. He is also representing the Victoria Chamber of Commerce, I understand, and supporting your view.

MR. KER: Yes, he is also our past president and reeve of the municipality of Oak Bay.

THE CHAIRMAN: We have also been favoured with some correspondence We have a letter from Mr. Walter Laming, who is unable to be present, and he has expressed his views in writing, and his letter will be of course considered. We hear that Mr. John W. Jones would like to bring some points under our notice. Is he present this afternoon?

MR. JOHN W. JONES: I am not a banker but I just wish to say that the Lord Jesus Christ died for you and shed his blood for you and invites you to come for salvation. He says the time is short, and he invites you to come.

THE CHAIRMAN: I have also a note from the Secre-

tary that Mr. Leeming wishes to be heard. Is he present?

MR. LAMING: This is the question which I wish to bring to the attention of the Commission. The Assistant Receiver General of the Department of Finance in Victoria is not in favour of receiving gold on deposit. Now in Europe when you have gold you can deposit it with a central bank and get a receipt for its safe keeping. On March 8, 1932, I had some gold, and I wished to deposit it just for safe keeping, but the Receiver General said, "You must sell it." I said, "I cannot sell it." It has to be kept for a good many years. I suppose you appreciate the fact that in Europe you can deposit gold with a central bank and you can issue notes against it, but in this case I was advised to sell the gold, but I could not sell it because as it happens the gold has to be kept for twenty-one years.

THE CHAIRMAN: Did you want to use the bank as a safe deposit?

MR. LAMING: More or less. You can take that to the bank in England and deposit it, and leave your gold with them.

THE CHAIRMAN: I think you are under a mistake. The bank will buy your gold but it will not take it and act as a mere custodian of your gold.

MR. LAMING: The Bank of France, the Bank of the Netherlands and the Bank of Germany will do it, and you can even issue notes against it. We should be able to deposit our gold in this country and get a receipt for

THE CHAIRMAN: Would you not have been able to put this gold in a safe deposit?

MR. LAMING: Yes, and it went there afterwards, but I maintain that it is to the advantage of the nation if the gold could be deposited with a central bank, and as there was no central bank in this country I took the gold to the Receiver General.

THE CHAIRMAN: Would not gold that was merely deposited in that way and was not acquired by the bank become more or less sterilized? You could not issue notes against it.

MR. LAMING: It would go to the general reserve like any gold held by the government or by the central bank.

THE CHAIRMAN: I rather gathered that you wanted the bank to be the bailee of the gold.

MR. LAMING: It is not a question of selling it but of safe keeping. It is valuable.

THE CHAIRMAN: I think we understand your point, and we can consider it. Is there any other point you would like to bring before us?

MR. LAMING: There are a great many points in banking. For instance, in Europe the banks give you interest per month and per day. That practice does not exist in Canada at all. This little leaflet I have here may interest you.

(Leaflet handed to the Chairman.)

THE CHAIRMAN: I see that this shows interest is paid on money on deposit at the rate of 1½ per cent per

day, $1\frac{3}{4}$ per cent for ten days, 2 per cent per month, $2\frac{1}{2}$ per cent for three months and $3\frac{1}{2}$ per cent for six months. Is this a savings bank?

MR. LAMING: No, just a plain ordinary bank and you can get interest at those rates for those periods, but that practice does not exist here at all. If you ask me another thing I would say that the rate of interest should not be prescribed in the Bank Act because under no circumstances can supply and demand be fixed by law. I woul lay particular stress on that.

THE CHAIRMAN: Do you mean that the maximum rate of 7 per cent interest to the bank should not be prescribe in the Bank Act?

MR. LAMING: : No, it certainly should not.

THE CHAIRMAN: Do you think that the tendency in having it prescribed at 7 per cent is to make the maximum rate always exacted?

MR. LAMING: And the rate goes up even higher.

THE CHAIRMAN: So you would prefer that provision to be deleted from the Bank Act?

MR. LAMING: Entirely because supply and demand finally governs.

THE CHAIRMAN: I quite understand.

MR. LAMING: It is prescribed from the Act in England.

THE CHAIRMAN: I do not think it is prescribed. In many countries it is just left to the chaffering of the market, so to speak. Any other point you would like to mention?

MR. LAMING: No sir, thank you.

THE CHAIRMAN: Have any other gentlemen given in their names, Mr. Secretary?

THE ASSISTANT SECRETARY: None, sir, but we have received correspondence.

MR. M. B. JACKSON: If I might say a word, my lord, I represent no one but myself, but I happen to be one of His Majesty's counsel, and when you adjourned this morning I had been listening with a great deal of interest to the colloquy between your lordship and Mr. Hamilton. It seemed to me to bring out one of the core points in connection with the Canadian banking system. I understood your lordship to ask why relief moneys granted in connection with seasonal industries, strawberry growing, for instance, were not available under our Department of Industries Act. It is precisely because of that, that I venture to rise. I happened at the time of the adoption of the Act to be a member of the legislature, and a fellow member was my good friend the present Minister of Finance, and I also happened to have the responsibility of being a member of the select committee that considered the Industries Act and I hope it is not out of place for me to say that I personally drafted that entire Act. Therefore it was a matter of astonishment to me to learn that when the strawberry growers required financial relief because of their seasonal difficulties they could not be afforded such relief under the Department of Industries Act, that that Act did not e mpower the government even to

guarantee the obligation. Since the adjournment in order to satisfy myself I have had a look at that Act, which was adopted in 1919, and one of the primary purposes in its enactment was to decentralize, if possible, to some extent, that condition of industrial pawn in which our industries were. We feel it here particularly. Our industries are to a large extent in pawn to the monopoly of the chartered banks in Canada. But let me premise that we are very proud of our Canadian banking system. There is this outstanding difference between the American system and the Canadian system, that the American system has its capital in each of its banks to be used locally and the interest of the bank is naturally to take care of the industries of that particular district, whereas the broad tendency in Canada is for the accumulated savings of the people on deposit with the banks to be at once dispatched to headquarters, with the result that over this wide stretch of country stretching many thousands of miles from coast to coast there are only ten banks in Canada to serve all that territory. What happens is that these accumulated deposits of the people, this capital of the people is hoarded at or near the headquarters of the banks, which practically means in the vicinity of Montreal and Toronto, in the very centre of Canada.

THE CHAIRMAN: That matter is susceptible of verification by the banks. What we want to get for your proposition would be on the one hand the extent of the advance made in British Columbia, and on the other hand

the amount of the deposits received.

MR. JACKSON: It is quite obvious that your lordship has not the time to listen to representations, and I do not wish to d etain you. I just wished to comment on that particular point that was raised. I quite realize that those who have a prepared proposition to put forward are the only ones to be heard. Section 4 of the Industries Act sets out the duties and powers of the Department of Industries, and it provides that the Department of Industries has to do this very thing, namely, render assistance by loan or guarantee to any business, partnership, company or association or otherwise connected with the development or the production of the natural industries of the country. Then section 6 of the Act says that the minister shall have power to assist by way of loan or guarantee, with the consent of the Lieutenant Governor in council, any of these industries. So I fail to see why the Department of Industries Act could have frustrated such an enterprise when its particular object was to help such an enterprise.

There is one other point that I would like to bring to your attention, and that is the tendency to accumulate and distribute the favour of credit in connection with the savings and capital of the people of Canada merely at headquarters. It is not so simple as Mr. Hamilton said to get satisfaction by applying to headquarters because in my practice, and I am sure that all practising solicitors have had the same experience I have found many apparently desirable and deserving enterprises connected with the natural resources of this country which have beendenied credit.

There should be some means of unlocking this monopoly that has obtained in banking and there should be a re-zoning of the credit and lending facilities of the people of Canada. How it should be done I do not know, but there should be a re-zoning of these credit facilities and for the releasing of capital more in the localities where it originates than concentrating it at headquarters. British Columbia is separated from the other provinces of Canada, as your lordship must realize, having travelled across the mountains, and there is also the fact that the prairie provinces are a unit in their industries, in their occupations and in their requirements. I have just brought this factor out on the spur of the moment because I rather resented just letting the point go that was raised in connection with the Department of Industries Act.

THE CHAIRMAN: Much obliged to you, because the legal point of view you are quite able to speak to, and we shall be able to examine the sections. Your general point is one that we must examine.

MR. ROBERT CASSIDY: I should like to associate myself with the remarks which were made a few moments ago by Mr. Jackson. I took the liberty of submitting to your lordship and the Commission a few observations. Like himself I am a member of the bar, but I have had considerable experience in banking matters in connection with banking cases heard before the different courts and some of them carried to the Supreme Court. I received fro your lordship an acknowledgement saying that my statement was so lucid as to explain itself but if I may be permitted

to supplement it by a word I should like to develop what I had in mind and perhaps put it in better form than I was able to do in the concise statement which I submitted. If your lordship will refer to my suggestions he will see that No. 4 reads as follows:

> That in each province there be established at least one bank having the majority of its capital stock always in the control of residents of the province with the object of decentralizing credit control.

And my suggestion No. 2 was:

> The lending of money abroad for foreign purposes or activities be prohibited.

That is for the purpose of keeping the credit supplies of Canada for use in our own country, and to that end measures should be taken to prevent the transfer of large sums of money abroad. As is well known call loans in New York to a certain extent deplete the credit which ought to be available and distributed throughout Canada as a whole.

Let me put it this way: The new Bank Act should prohibit the lending of money abroad for foreign purposes or activities.

The other point with which I dealt was a very important and rather debatable one, as to the power of the banks to issue paper notes. That is a matter of very great importance indeed. In modern times, as we know, that power of controlling the credit flow of the whole country and distributing it is now substituted

almost for a great many other powers resulting in affecting the domestic as well as the foreign situation in relation to trade and commerce. This in our modern times is being substituted for the old instruments of tariffs, embargoes and so on. I expect that that matter will be debated because it has been made the subject of political contest in Canada. I would not wish to take the question up from a political standpoint at all. I have read the report of the parliamentary committee in England which was presided over by your lordship who here presides and that question was considered and adumbrated sufficiently in the report, and it is a matter which is deserving of very high consideration. Of course it is within your lordship's knowledge that power was taken away holus bolus from the English banks in the Act of 1844 in England. Before that time the chartered banks in England had the power of printing money. Any right is very seldom taken away from a person in England during its currency, but as soon as these charters fall in no more power of that kind should be given to any person whatever, with the obvious object of keeping the flow of credit in the hands of the responsible authorities for the benefit of the whole country and not sharing it with anybody. It is a most dangerous thing to share that with any body or person outside the state. But in Canada at the behest of the banks we have given them this power which I consider an extremely dangerous power to hand over to them. It is not a question whether they make much or little money out of it.

It is interference with that absolute control which we ought always to maintain in the country as represented by the Premier of the country. That, my lord, is all I wish to say but I should also like to associate myself with any contentions to that end that are made before your lordship.

The other matter, the question of gold, is also very important. Of course, if this suggestion which I make that the banks should not be allowed to issue paper money were adopted, the question of holding any gold by the banks would be done away with and the gold might be rightly purchased by the government and government money issued in lieu of it, and it could then be kept in the coffers. In the payment of debts which Canada owes to foreign countries we are suffering at the present time from the high rate of exchange, but with this question your lordship and the Commission are very much more familiar than I can possibly be. At the same time I desire to associate myself not only with what has been said on this subject by my friend to my left but also with all the other contentions of the same nature.

THE CHAIRMAN: Much obliged you have touched on that. It is one of the most important questions we shall have to consider.

MR. WILLIAM CROUCH (President, Union of British Columbia Municipalities): I am representing the Union of British Columbia Municipalities. The Union comprises about sixty-seven municipalities in the province of British Columbia. We have no real cause of complaint regarding the banks, but I have heard of one or two com-

plaints from different reeves regarding the way their municipalities have been treated by different bank managers. We have a great deal of unemployment in British Columbia, and we have to give a great deal of relief, and that relief is financed one-third by the Dominion government, one-third by the provincial government, and one-third by the municipal authorities. But we have to wait perhaps two or three months before we can receive the Dominion government or the provincial government cheque and a number of the municipalities have to finance the relief burden for two or three months before they get their accounts settled by the provincial and Dominion governments. On one or two occasions I have heard them say that they cannot get from their bank any loan whatever to finance this relief, even when they have promised that as soon as the cheque is received from the provincial or federal government it will be turned over to the bank. That is one thing I wanted to bring before your lordship.

Another matter over which I am greatly concerned is the high rate of interest. At a time when commodity prices are down practically to the lowest point, when salaries have been reduced and men are unemployed in large numbers we find that the bank rate of interest has been gradually raised higher and higher, and we do not think this is quite right. About a year ago, at the peak of the depression, most of the municipalities were paying 6 per cent to the banks on loans. That rate was suddenly raised to 6½ per cent. Wires

went down to head office, and the rate was put back again to 6 per cent. We maintain that 6 per cent is away too much, and at a special session of the Union of British Columbia Municipalities, in convention in Victoria on February 29, 1932, the following memorandum was passed:

Submitted by Reeve Crouch, Saanich Municipality.

Whereas this Convention of the Union of British Columbia Municipalities, meeting in special session in Victoria, on February 29th, 1932, views with grave concern and alarm the rising rate of interest.

And, whereas, for the purpose of necessary financing the Province of British Columbia and other Provinces of the Dominion of Canada, have been compelled to pay an interest rate from 6½ to 7 percent on Government bonds, and as the securoty of the Province is, or should be, the very best that can be offered to investors, this advance in interest must, of necessity, result in an increase of interest charges to industries, farmers, home owners, and the public generally;

And, whereas, any rise in interest rates must hamper, if not absolutely prohibit, any Corporation or private enterprise, thus delaying the normal return of business and adding to the burden of unemployment;

And, whereas, the persons who benefit from an increase in interest charges are in the great majority of cases in the best position to stand decreases;

And,whereas, commodity prices and wages are lower than for many years, any rise in the interest rate is a MOV E IN THE WRONG DIRECTION, and it increases the income of the rich and bears down upon the poor, thus creating in the minds of

the majority of our people suspicion, distruct and unrest;

THEREFORE, BE IT RESOLVED, that this Convention do respectfully suggest to the Dominion and Provincial Governments that the time has arrived for an investigation into the whole system of interest charges as applying to Government bond bank loans, mortgages, or any other form of interest charges, that they might deem advisable, with the idea in mind that legislation be introduced to rigidly control interest charges.

AND BE IT FURTHER RESOLVED that a copy of this resolution be forwarded to the Honourable the Prime Minister of Canada; the Honourable the Prime Ministers of all Canadian Provinces; all Unions of Municipalities, Chambers of Commerce; and to every member of the Canadian House of Commons.

I sincerely trust your lordship will go into this matter of interest rates in considering the banking question.

THE CHAIRMAN: When you speak of interest rates, are those on temporary advances obtained by the municipality which advances will ultimately be paid out of the rates?

MR. CROUCH: As Mayor Leeming says, we borrow on the payment of our taxes. In Saanich we borrowed from the Bank of Montreal $150,000, which will be paid off as soon as our taxes come in onthe 10th. But I might say that I understand from the reeves that the banks will not lend any money at all if it is going to be used for purposes of relief.

THE CHAIRMAN: Is there anybody else who would like to present his views to us? I may say to any who have not addressed us but have any views they would like to put in writing that we shall be glad to receive them if they will send them to the Secretary in the form of a memorandum. This afternoon we are going to discuss one or two technical matters among ourselves.

MR. HAMILTON: May I say a word or two with respect to Mr. Jackson's observations. I hope I did make it clear that a legal opinion was not sought by the banks. The matter was arranged between those applying for the loan and the government, and they were of that opinion and did not come back again, and the matter ended with the authorization of the loan. The government would not give a guarantee of the loan. I do not know by whom that decision was made, but they did not come back when that was decided. Finally the government advanced the money themselves. We heard nothing about it. We stood ready to advance the money. We only requested that there should be a government guarantee, but the government would not give the guarantee, and they did not come back. It was not that a legal opinion was sought by the banks.

SIR THOMAS WHITE: I cannot quite understand why there should be any difficulty in a municipality obtaining an advance from a bank in anticipation of payment by the government, provincial or Dominion, provided that there is the assurance that those payments will be made. I would imagine that the banks would be willing to make the advance under such circumstances. If a

contractor has a contract with the government and becomes entitled to certain moneys, upon the assignment of his claim to a bank and notification to the government the bank would have the assignment of it and would make the advance in the usual course. What differentiates that case from the cases you mention, anticipating the payment of relief moneys by the governments? If you are not prepared to answer that offhand possibly the bankers might consider the point raised. It does seem to me to be a very important one.

MR. HAMILTON: I can answer that directly because it has been done. We have done it ourselves on the assignment of relief payments by the provincial government.

SIR THOMAS WHITE: It occurred to me that that is what ought to be done and probably would be done.

SIR CHARLES ADDIS: Is that the regular practice?

MR. HAMILTON: I think it is, but unfortunately there are some municipalities who from other causes have got into difficulties with their finances or may have already owed the banks money which was coming to them from the taxes, and when the taxpayers failed to pay the taxes the municipalities were not in a position to pay the money over.

SIR THOMAS WHITE: But where considerations of that kind do not arise, where the municipality was carrying along in the ordinary course and would be entitled to receive so much from the provincial or federal government, would there be any difficulty in obtaining an advance from

the banks in anticipation of these payments, generally speaking?

MR. HAMILTON: No. I know one municipality which is in the hands of a commissioner to-day, where the bank has advanced against a specific assignment of the funds coming from the government so that relief might go on. I know of one case where that has been done. I have no knowledge of the particular case to which Mr. Crouch referred.

SIR THOMAS WHITE: I just raised the question. I know nothing about it.

MR. CROUCH: I should be very pleased to submit to your Commission specifications of municipalities which have been refused.

THE CHAIRMAN: That will be quite a useful thing to have. One of the advantages of this inquiry will be to bring people together sometimes who may not have quite understood each other, and if you put before Mr. Hamilton a specific case I am sure that he will be glad to give you an explanation or, shall I say, an apology. I think we have had a very useful hearing. We wish to occupy the remainder of our time this afternoon in having some conferences on technical matters with representatives of the government and others, matters not of so much public interest. It only remains for me to thank you for your hospitality while we have been in Victoria and to say that we have had a very pleasant start for our inquiry in the West.

The Commission adjourned at 3 p.m.
Monday, 14th August, 1933, to resume
on Tuesday, 15th August, 1933.

ROYAL COMMISSION ON BANKING AND CURRENCY

THE RIGHT HON. LORD MACMILLAN, P. C., K.C., Chairman.

SIR THOMAS WHITE, P.C., K.C.M.G., SIR CHARLES ADDIS, K.C.M.G.,

BEAUDRY LEMAN, B. Sc., C.E. HON. J.E.BROWNLEE, K.C., M.L.A.

E. J. Roberts, Esq.,
Secretary.

A. F. W. Plumptre, Esq.,
Assistant Secretary.

PUBLIC SITTING

The Court House,

VANCOUVER, B.C.

August 15th, 1933.

FOURTH DAY

Robert Brydie,
Official Reporter

Court House,
Vancouver, B.C.
Tuesday, August 15, 1933,

--- The Commission resumed at 11 A.M.

MR. H.R. McMILLAN: My lord and gentlemen: As President of the Vancouver Board of Trade I am pleased to welcome you to this city and to wish you success in your work and offer you on behalf of the Business Community all the assistance they may give you.

The Vancouver Board of Trade has no brief to present before this Commission. It is constituted to care for the problems of the Business Community. The question of banking has not received its particular study, and, therefore, it has no recommendations to make; but the Membership includes all classes of producers and merchants in this particular geographical area, and representatives of each of the leading industries are here in case either they may desire to make recommendations to you, or you might desire to ask questions of them.

I thank you.

THE CHAIRMAN: Mr. McMillan and gentlemen: I should like, in the first place, to express our appreciation of the welcome which has just been extended to us to your City, a welcome, if I may be allowed to say so, none the less pleasant to me from the fact that it emanates from a fellow Clansman.

I am sure those who are gathered here to-day

appreciate the task committed to us by the Government. The primary occasion of this Royal Commission is the arrival of the period when the banking code of Canada requires its decennial revision, and the Government, having regard to the quite sectional nature of the last ten years in the history of Canada - and may I say also in the history of the world -- both in its economic and financial aspect, decided that it would be desirable on this occasion that a somewhat wider survey and investigation should precede what may be called the routine revision of the Act.

The term of reference which have been handed to us have accordingly been framed on comprehensive lines, so that the Commission may have the opportunity of considering larger issues than are generally taken into account at a decennial revision; in other words, it has been thought desirable that the large task of revision should be undertaken after a more extensive survey had been made. Accordingly we have been directed to visit the Provinces of Canada and the important cities in those Provinces for the purpose of ascertaining, so far as the relatively short time at our disposal may permit - as I say, in order to ascertain on the spot, as it were, the particular natures of the economic and financial problems with which each locality is especially concerned.

Personally - and I am sure I speak for my colleagues also - we attach the greatest value to these opportunities, because by coming to each of the Provinces in turn, diverse as they are in their economic interests, due no doubt to the nature of their climate and their products- because your great Dominion includes so many diverse

interest - we have opportunities of meeting representative men and of hearing many opinions, and the result of that we hope will be to instruct us in the various views which are entertained at the present moment throughout Canada.

What we propose to do - and have indeed already begun to do - is that at each town to annouce our arrival beforehand and to invite all those who may so desire to put before us any special aspect of the problems we are to consider to attend our meetings and offer us their evidence. But we do not desire to limit our enquiry to oral evidence. There must be many in your midst who would like to make a contribution to our labours in the form of written memoranda or representations. After all, you will recognize that our topic is to a certain extent technical and delicate, and it is often more expedient I think to make representations in writing where you may have a considered and more precise presentation of views than ispossible merely in an oral presentation.

On the other hand we want those who desire to discuss any topic with us orally to be good enough to hand their names to the Secretary, and we shallhope to have the opportunity of hearing them.

A number of names have been handed to usand we propose to occupy this morning in hearing such gentlemen who are kind enough to assist us. We may also have the opportunity I hope of some conferences with gentlemen who may wish to develop some more technical matters of perhaps less interest to the public, and whom we shall be happy to meet in conference in private.

Tomorrow we shall also sit here and continue the

hearing of evidence, and, as I say, we shall also be glad to receive any written representations or memoranda.

We recognize the task which has been entrusted to us is an exceedingly important one at this moment in the history of Canada. I hope you do not expect too much of us. Too much is sometimes expected from Royal Commissions and from other kinds of commissions, and disappointment is apt to ensue, as persons are inclined to believe that those who sit upon Royal Commission are devine inspired. I have not noticed that much in my own experience. What we desire to do is to the best of our ability place ourselves at the disposal of Canada to endeavour to go thoroughly into what may almost be called the tragic problems which have been confronting this country. If we are able to do anything toward a solution of those problems, or to aid in the promotion of this country's prosperity we shall feel that our labours have not been in vain.

As our time is so limited now, let us proceed to practical business. Mr. Secretary, who is the first speaker?

MR. G.G. McGEER, K.C.: My lord, I spoke to the Secretary this morning. I have some further representatio I would like to make. May I be heard tomorrow morning at eleven o'clock ?

THECHAIRMAN: That will do nicely.

MR. McGEER: Or shallyou be sitting earlier tomorrow morning?

THE CHAIRMAN: I think we had better leave that open until this afternoon to see how we get along.

MR. McGEER: As your time is so limited, my lord, perhaps you may be sitting tonight.

THE CHAIRMAN: I would suggest you keep in touch with our Secretary, who will advise you definitely later on.

MR. McGEER: Thank you, my lord, I shall do that.

THE CHAIRMAN: I understand that Mr. McCornack, representing the British Columbia Lumber and Shingle Manufacturing Association, desires to be heard. Is he in the room at the moment?

MR. J.D. McCORNACK: Yes, my lord.

THE CHAIRMAN: We shall be glad to hear you now, Mr. McCornack.

MR. McCORNACK: My lord and gentlemen: I am, for the time being, president of the British Columbia Lumber Manufacturing Association and I am also interested as the managing director of one of the large lumber manufacturing companies here at the Coast, located on the Fraser River, at Fraser Mills, B.C.

THE CHAIRMAN: You represent one of the largest industries of British Columbia?

MR. MCCORNACK: Yes, a large industry, your lordship passing at the present time through a very severe depression.

Now, I do not know, gentlemen, that I can add much of anything of value to the things you have under consideration. The ordinary layman can hardly be expected to qualify as an expert in banking matters. I can only speak from my own experience over a period of twenty-six and one-half years in the Province of British Columbia as a manufacturer of lumber and as the manager of three manufacturing companies for a part of that time; and also

as one having in charge a number of retail establishments handling lumber and lumber products in two of the Prairie provinces, the Province of Alberta and the Province of Saskatchewan.

My own experience with the Banks of Canada has indeed been a very happy and satisfactory one. There was a time in the early days of our company, which goes back to 1910 and from that on for a period of, I think ten years, when we were using a very substantial amount of banking capital in our business, and my experience has been, as I have already stated, a very favourable one. We were always able to secure reasonable and satisfactory loans on our liquid assets at what I always considered to be a fair and reasonable rate of interest.

I think, speaking again as a layman on the banking situation in Canada and one who cannot offer much advice, - I believe, however, that after going through this very serious depression of about four years, the people of Canada should be very thankful that they have had such a banking system as they have had to carry us through this trying time in comparison with the great country which lies to the south of us and which has had thousands of bank failures over this four-year period. I cannot remember that Canada has had a bank failure or a run on any of its banks. I believe there was one small institution in Manitoba which had a little trouble, but it was not one of our prominent banks.

Speaking of the facilities which banks afford our industry as a whole, I think that in the lumbering industry it has assets to offer fair prospects of meeting its obligations, and the banks have had no difficulty

of which I have been advised; nor has the industry had any difficulty in securing reasonable credits from the banks in the City of Vancouver.

THE CHAIRMAN: Are you speaking on behalf of the manufacturers generally, Mr. McCornack?

MR. McCORNACK: Yes, my lord, and with a reasonably fair knowledge of this industry as a whole. I have been here for twenty-six years; I have seen many manufacturing companies start and fail. The lumber industry is an industry which is not at all times stable, it is an industry which has raw products easily available and there is a great deal of difference in the financial set-up in the lumber industry.

THE CHAIRMAN: One question might be asked of you, Mr. McCornack: Have you found in conducting your business any difficulties with exchange questions?

MR. McCORNACK: No. We are dealers in exchange. No, I cannot say, my Lord, that we have found any difficulties.

THE CHAIRMAN: Has your business been affected by the fluctuations of the exchange?

MR. McCORNACK: Not seriously. The exporter of lumber may be affected in a way we are not. We deal directly with the exporters.

THE CHAIRMAN: You do not speak for that interest?

MR. McCORNACK: No, I do not speak for that interest I speak first for myself as a manufacturer and manager of a large company, and from general knowledge which I have of the lumber industry, both logging and manufacturing.

THE CHAIRMAN: Tell us, as a practical matter, how you use the banks for financing your industry?

MR. McCORNACK: We use the banks by way of loans on our liquid assets, that is, our manufactured stock of goods.

THE CHAIRMAN: Section 88, as we call it?

MR. McCORNACK: Yes, and our trade papers to a certain extent.

THE CHAIRMAN: Your turnover is very rapid?

MR. McCORNACK: Yes. Our terms - in fact, a great deal of our sales are made on the cash discount basis, and our extended terms are not beyond from sixty to ninety days. That is only to the smaller trade, the rail trade. Our export business is all on a cash basis - practically cash against documents.

THE CHAIRMAN: You require such big seasonal credit?

MR. McCORNACK: Yes, my lord. There are credits which are supposed to come close to liquidating themselves at least once a year.

Now, I have noticed some statements made in the Press, if I may refer to them -

THE CHAIRMAN: By all means.

MR. McCORNACK: -- that the managers of our local institutions here should be given more lee-way in the matter of extending credit up to the sum equivalent of fifty thousand dollars. I will not speak of that at all, but I wish to say that in the arranging of credit it has been my experience with the banks that we secure a line of credit good for a year, until it is changed. Now, we are always advised, even by the bank if we fail to look after this matter ourselves, that we should again submit a statement of our financial condition to the bank in time so that the matter will go to the head office and be passed

upon. In my experience I have found no delay or difficulty in that respect. I just refer to that owing to the fact of having seen the item in the Press.

THE CHAIRMAN: Could you give us some idea of the volume of business now as compared with, say, five years ago?

MR. McCORMACK: You mean in this vicinity here?

THE CHAIRMAN: Yes.

MR. McCORMACK: Well, the volume of business was reduced pretty well over the province generally down to nearly twenty-five per cent of its former capacity.

THE CHAIRMAN: It fell to twenty-five per cent?

MR. McCORMACK: Of its former capacity, over the Province generally. Right here in this immediate district it is now operating at a higher basis than that, probably around about forty per cent.

SIR [illegible]: In volume?

MR. McCORMACK: Yes.

SIR THOMAS WHITE: What about the price?

MR. McCORMACK: The price has dropped fifty per cent from what it was in the years 1928 and 1929.

SIR THOMAS WHITE: Would it follow that you would not require so much credit?

MR. McCORMACK: Naturally, naturally; very naturally it would follow, yes. The average selling value of lumber has reduced about fifty per cent from what it was in the years 1928 and 1929 and for some years previously.

THE CHAIRMAN: To what do you attribute the falling off in business?

MR. McCORMACK: Well, one might have an opinion which would be different from that of many others. I think to some extent we have led ourselves into this thing.

I think to a very great extent - to some extent at least.

In our own industry, as I have found in studying it, Canada had to engage in a war in the year 1914, where she remained for four years, and a substantial part of the world with her. During that period of time - and the same is true in the United States, even before they themselves entered the war - a great deal of effort was given to producing goods for war purposes, and we went along through those four years during which time the normal work which would be done in building, and soforth, was of necessity neglected, and neglected practically for another one or two years following the close of the war, when of course something had to be done to get these building improvements which had been postponed started again, and we did get it started in various ways. I think in our own country they were helped to some extent by floating in the year 1919 a large amount of bonds to help get things started; the same thing took place in the United States; a great effort was made over there to get building started and business generally started following the war. Naturally then from 1920 for a period of about eight or nine years we had quite a boom in the lumber business, and I think in business of all kinds - we certainly had quite a lively boom in the lumber business. Well, anybody who has studied building operations and the consumption of lumber should know that that thing could not continue because ultimately you get caught up with your work and have to have a slow-down.

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In my opinion we did a business in lumber that should have been done over a period of about fourteen years inside of about eight or nine years, and consequently we could not expect that demand to continue. In the meantime, while this demand was with us, new plants were started and we got to over-producing, and in our industry at least ten per cent of production at no time seriously affects costs.

As to what brought about these world wide conditions, that is a question that is too far afield for me to answer with my limited knowledge. I for one did not expect the boom we had in lumber could have continued indefinitely because we have too much production.

HON. MR. BROWNLEE: Are you prepared to say what your chief markets are for lumber?

McCORNACK: A very large part of our market, more than fifty per cent in the case of my own company, is in foreign trade.

HON. MR. BROWNLEE: With what countries particularly?

MR. McCORNACK: With China, Japan, Australia, Great Britain, and some small business in the West Indies.

HON. MR. BROWNLEE: Who are your chief competitors?

MR. McCORNACK: The Baltic countries together with Russia.

HON. MR. BROWNLEE: Have you found that

five per cent in your business.

MR. McCORMACK: Yes.

HON. MR. BROWNLEE: Have you found that consumption has fallen off to that extent or has some other country replaced British Columbia in doing the business?

MR. McCORMACK: I have only a limited knowledge, of course, but I may say that prior to this depression we were marketing lumber in the United Kingdom only in special things which the Baltic countries were not able to produce. When we have to go further than that to market our products, we have to meet their competition, but this is the way we meet their competition. We have been operating for three years regardless of any profits at all just in order to try and keep our organizations together and to keep a large number of men in employment and from being thrown into a position where they would require relief. Profits have been overlooked. Consequently we go to any market that will afford us some assistance under the conditions under which we are operating.

If I may be permitted, and if it is not out of place, I just want to make one remark about the competition we have to meet in the Baltics. There is the big factor of transportation. With regard to the average value of lumber that we ship to the United Kingdom at the present time -- if I am wrong I will ask Mr. MacMillan to correct me -- we are under a

handicap in transportation alone equal to fifty per cent of the value of our product as we lay it down on the dock to be loaded on board ship.

SIR THOMAS WHITE: As compared with what?

MR. McCORNACK: With Sweden and Finland and there is only a very slight difference between them and the Soviet Republic, but Mr. MacMillan is more familiar with the freight rates than I am. I have been using a figure of $6. There is a handicap running from six to eight dollars compared with Swede and Finland.

COMMISSIONER LEMAN: On the British market?

MR. McCORNACK: Yes, in getting to the United Kingdom. No one can say that that is a profitable lumber business.

THE CHAIRMAN: It is a big geographical handicap.

MR. McCORNACK: Yes, a tremendous handicap. When you lay say fifteen hundred feet of lumber on a dock at Vancouver to load it on a ship you are at a disadvantage of fifty per cent of the value of that commodity in transportation to meet the competition in Europe.

SIR THOMAS WHITE: Mr. McCormack, I would like your opinion of the importance of the market of the United States, say in 1927, 1928 and 1929, before the depression. Did it play a very considerable part?

MR. McCORNACK: Oh yes, a very substantial part for the industry generally in British Columbia.

I know that in our own case, Sir Thomas, for a number of years it ran to thirty and thirty-five per cent of our entire production.

SIR THOMAS WHITE: Apart from any tariff action which has affected you, what would you say as to the probable demand from the United States under the conditions that have prevailed there during the last two or three years? What would you naturally expect to find?

MR. McCORNACK: We could not naturally expect the same amount of business that we had when conditions were good because our principal competitors in manufactured lumber on the other side of the line are the states of Oregon and Washington, and they have been brought down to a very small producing capacity in the last two or three years.

SIR THOMAS WHITE: In addition to the slackening of demand owing to the depression what, if any, change has taken place with regard to the admission of lumber products to the United States during the last three or four years?

MR. McCORNACK: From the year 1913, if my memory serves me right, we had a free entry into the United States for lumber and that continued until 1930 or 1931 when a duty of $1 per thousand feet was imposed against manufactured lumber. That continued until on the 20th of June a year ago there went into effect an excise duty, or whatever you may call it, of $3 per thousand feet so now we have a $4

duty or tax or whatever you call it, or a combination of duty and excise tax equivalent to $4 per one thousand feet on both rough and manufactured lumber.

COMMISSIONER LEMAN: Regardless of the quality of the lumber?

MR. McCORNACK: Yes, regardless of the quality of the lumber. It is not an ad valorem duty at all.

SIR THOMAS WHITE: Would you describe that as a prohibitive tariff, or practically so, or a very heavy tariff? How would you describe it?

MR. McCORNACK: It is a very heavy tariff when you have to pay $4 for one thousand feet on a product worth $10 to-day at your mill. It will be easily be seen that that is a very heavy tax.

HON. MR. BROWNLEE: Can you give the Commission any information as to the volume of business from the British Columbia lumbering industry going to the prairies say in1928 or 1929 as compared with last year?

MR. McCORNACK: I think I can get that for you.

HON. MR. BROWNLEE: I should be glad if you would.

MR. McCORNACK: I will get it and send it to the Commission at the hotel.

THE CHAIRMAN: Thanks very much.

HON. MR. BROWNLEE: I am interested to know what falling off there has been as a result of the low crop returns.

THE CHAIRMAN: We are much indebted to you, Mr.

McCornack.

MR. A. H. MERCER: I represent the Fraser Valley Milk Producers'Association.

THE CHAIRMAN: Is that a co-operative association?

MR. MERCER: Yes sir.

THE CHAIRMAN: We shall be very glad to have fromyou any comments on your relations with the banks and the extent to which you are satisfied with present banking facilities, also any criticism you wish to make.

MR. MERCER: I might say, your lordship, that as an organization our experience with the banks has been very happy. We have at all times been able to get what credit we required without any difficulty at all. We may, however, suffer at times as a result of the possibility of our paying more for that accommodation than some of our competitors in foreign countries, in view of the fact that we do some foreign business. Our Association has had no difficulty in getting bank credit and loans from the banks as required.

THE CHAIRMAN: You might tell us a little about the constitution of your Association? It is an association of milk producers?

MR. MERCER: Yes.

THE CHAIRMAN: With central factories processing the milk?

MR. MERCER: Yes, the milk is consigned to

our organization.

THE CHAIRMAN: Do you buy from the farmers?

MR. MERCER: No, it is consigned to us, and we handle milk in all of the phases known to the milk business, known to us at any rate. We are interested in distribution by retail. We make butter, cheese, buttermilk, casein, semi-solids, also evaporated milk, and we ship milk products to many foreign countries.

THE CHAIRMAN: What is the extent of your export business as compared with your domestic business?

MR. MERCER: I would say probably fifteen per cent.

THE CHAIRMAN: Fifteen per cent export?

MR. MERCER: Yes.

THE CHAIRMAN: And the rest is consumed at home?

MR. MERCER: Yes, in the domestic market. The exchange problem is somewhat embarrassing at times. When we get the pound sterling and convert it over here into Canadian money it does not represent very much at certain periods, but of course just now it is not so embarrassing.

THE CHAIRMAN: To what countries do you export?

MR. MERCER: We export to Great Britain, India, China, and some of the South American countries.

THE CHAIRMAN: And you use the banks to assist you in the conduct of your export business.

MR. MERCER: Yes, surely.

THE CHAIRMAN: What is the general course of

business now in your export line?

MR. MERCER: In what way?

THE CHAIRMAN: I mean how do you finance it.

MR. MERCER: We do not make any special arrangements for financing our export business. It is just done in the ordinary course of business, the same as our domestic business. We arrange with the banks at the beginning of the year for a line of credit and just use that from time to time.

THE CHAIRMAN: What security have you to give?

MR. MERCER: Trade paper and a statement of inventory.

THE CHAIRMAN: You can get security, of course, on goods in your own hands?

MR. MERCER: Surely.

THE CHAIRMAN: Do you find that that is a useful facility?

MR. MERCER: Yes.

THE CHAIRMAN: And your turnover would be pretty rapid.

MR. MERCER: Well, at times we carry quite heavy inventories for several months in the year as the result of quite a large increase in production during, say, a certain flush period of the year.

THE CHAIRMAN: That is a climatic or seasonal condition?

MR. MERCER: Seasonal, yes. We would probably have several hundred thousand dollars worth of goods unsold at certain times, and that is financed

largely with bank money. Those goods are gradually fed to the market as the flush period disappears.

SIR THOMAS WHITE: So that the entire loan might liquidate in the course of a year or at all events be lowered very considerably.

MR. MERCER: It is usually liquidated each year, although we have not had any serious difficulty if it is not liquidated in a year.

THE CHAIRMAN: And you can count on that credit?

MR. MERCER: Yes, we have never been disappoi ed.

THE CHAIRMAN: We do not want to ask questio about a man's personal business, but you are speaking for the Association. Can you tell us what rate is charged to you for your accommodation?

MR. MERCER: To the Association?

THE CHAIRMAN: Yes.

MR. MERCER: Six per cent.

THE CHAIRMAN: How long has that rate obtained

MR. MERCER: For the last five or six years.

THE CHAIRMAN: And no variation in that time?

MR. MERCER: No.

THE CHAIRMAN: Was it higher before?

MR. MERCER: Yes, in our younger days it was higher, I presume; in fact, I know it is higher. The banks may not have had as much confidence in us then.

COMMISSIONER LEMAN: As far as your foreign

trade is concerned, do you extend credit or is it conducted with sight drafts or short term drafts?

MR. MERCER: Short term drafts. We have our agents there and we draw on them from time to time.

SIR THOMAS WHITE: And you get your rate of exchange from the bank?

MR. MERCER: Yes.

HON. MR. BROWNLEE: There is no reduction in your rate coincident with the reduction in the rate of interest on deposits?

MR. MERCER: No.

HON. MR. BROWNLEE: What percentage of your business, might I ask, goes to Great Britain? What volume do you export to Great Britain in a year?

MR. MERCER: Probably $125,000.

HON. MR. BROWNLEE: Is that a substantial part of your total business?

MR. MERCER: No, I would not say so.

THE CHAIRMAN: He told us fifteen per cent export, and of that export how much goes to the United Kingdom?

MR. MERCER: I would prefer to check the records on that and give you the correct information if I can later. I cannot speak from memory reliably on that point.

HON. MR. BROWNLEE: So any variation between Canada and the United States would not have a reaction on your total business?

MR. MERCER: No, not a variation between

Canada and the United States, but a variation between Canada and Great Britain would.

HON. MR. BROWNLEE: When you spoke of your relations with the banks, were you speaking from the standpoint of your Association as a business organization, or were you speaking on behalf of your member producers?

MR. MERCER: So far I have spoken only as a result of the experience of our Association. The members' story would be entirely different.

HON. MR. BROWNLEE: How many members have you?

MR. MERCER: We have 3,500.

HON. MR. BROWNLEE: Is there anyone here who will be speaking on behalf of your members, who I presume are all agriculturists?

MR. MERCER: I do not know that there is anyone present this morning. I did not know that I was going to be called or probably I would not have been present either, but we can contact you with our members who will be glad to tell you what experience they have had in trying to get credit which they needed badly.

HON. MR. BROWNLEE: I would be interested in hearing the experience of the rural part of British Columbia as well as of the industrial part.

MR. MERCER: We shall be very glad to extend an invitation to your Commission to visit say the little village of Chilliwack for half a day or so and we will there bring in to you a flock of members

whom you will be glad to hear and they will be glad to hear you.

THE CHAIRMAN: I am sure it would be very interesting and profitable, but if we visited one we would have to visit them all or our lives would not be worth much. Could we not get representatives to tell us their experience?

MR. MERCER: We shall do our best to bring representatives into town. We shall probably have to pay their way.

THE CHAIRMAN: It is a little embarrassing for a man to have to talk about his own affairs in public, so if any of them desire to see us privately and tell us about their own personal affairs we shall be very glad to do that or they might send in a memorandum. I am very anxious to hear exactly what their experience has been.

MR. MERCER: So far as my own personal experience as a farmer is concerned, while I am probably somewhat better situated than some, whenever I have required credit I have not been disappointed. Your lordship is particularly interested in the farmer who does require credit?

THE CHAIRMAN: Yes.

MR. MERCER: We will make an effort at least to get a representative who will speak to you from the standpoint of the producer.

COMMISSIONER LEMAN: May I ask one question about the cost of processing. Would that

be a large item in your expenditure, or is the bulk of your business just the natural milk product as you take it from the farms?

MR. MERCER: The cost of processing varies, of course, with the commodity you are handling. In the case of evaporated milk it may amount to 60 cents per pound butter fat, while as regards the commodity of butter the cost per pound of butter fat would probably be three or four cents. It depends on the commodity you are working with. Cheese would be one cent a pound.

HON. MR. BROWNLEE: You have stated that six per cent was the cost of your accommodation. Are you able to say from your experience what the cost of accommodation is to your producers for any credit they have obtained?

MR. MERCER: I would say eight per cent.

THE CHAIRMAN: Has that varied at all in recent years?

MR. MERCER: I do not think so, so far as the banks are concerned. Apart from the banks, local loans may vary, and they do, I believe.

THE CHAIRMAN: Is that rate so fixed that it does not vary according to the nature of the security afforded? Some loans must have very much better security than others.

MR. MERCER: I could not answer that.

THE CHAIRMAN: Thank you very much.

MR. AUSTIN TAYLOR: If your lordship would

proceed by way of asking me questions I should be very glad to give any information that I can.

THE CHAIRMAN: You represent the Mining Association of British Columbia?

MR. TAYLOR: No, sir, I do not represent the Mining Association. I happen to be president of a mine. I shall be glad to tell you anything about the mining industry of British Columbia that I can. We have done a lot of work, examined a lot of properties and I would be glad to tell you of the contact between banking and mining.

THE CHAIRMAN: You are yourself a practical miner?

MR. TAYLOR: No, sir.

THE CHAIRMAN: What is your business, may I ask?

MR. TAYLOR: The financing of mines.

THE CHAIRMAN: Individual mine or a group of mines?

MR. TAYLOR: We have examined about 1,500 properties in British Columbia.

THE CHAIRMAN: You prospect and ascertain whether it is a good prospect, and then put it on the market?

MR. TAYLOR: We have not put a property on the market yet except the Bralorne. We have examined 1,500 properties in British Columbia and we have not been fortunate in finding one. We have done work on probably ten per cent of the rest. If I may continue

along my own lines, I understand that you wish to know if the banks will lend money on these prospects. Is that your question?

THE CHAIRMAN: Yes.

MR. TAYLOR: If the head office of the [illegible] bank instructed their branch managers to assist in the development of the mining industry as a whole by lending money on prospects I do not think the Bank of England has enough money to satisfy the needs of the average prospector or promoter in his estimate of the value he puts upon his property. A mine is very difficult to finance. As I said we have examined 1,500 properties in British Columbia. We have done work on probably 250. At present we are working on two properties.

THE CHAIRMAN: What minerals are you looking for?

MR. TAYLOR: Gold or any other precious metals that will show a profit. There are lots of mines to-day such as silver mines that cannot be worked on account of the low price of silver.

THE CHAIRMAN: If you found a mine that has a reasonable promise --

MR. TAYLOR: We spend our own money, and if the mine turned out to be good we pass it on to the public. We develop the property to a point which we believe to be beyond the prospect stage.

THE CHAIRMAN: For that particular stage of development, when you are merely prospecting, I can

quite see that you may have difficulty in getting money from the banks for that. It is a highly speculative business?

MR. TAYLOR: Yes.

THE CHAIRMAN: The figures you have given us as to the number of mines you have examined would indicate that. How do you finance it?

MR. TAYLOR: We finance it ourselves. I also represent an oil company, which is just the opposite from a gold mine. It is not quite so profitable. I am vice-president of the Home Oil distributors. We buy our oil in California and process it in British Columbia. When you are producing gold in Canada of course you get a premium.

COMMISSIONER LEMAN: Have you any figures as to the amount of gold produced in British Columbia last year?

MR. TAYLOR: I have not got them with me but I can get them for you.

COMMISSIONER LEMAN: I think they would be interesting.

MR. TAYLOR: I shall be glad to get them.

SIR THOMAS WHITE: What would be the effect on silver mining in British Columbia if you had a rise in the price of silver?

MR. TAYLOR: I have a lot of properties in British Columbia that can operate on fifty cent silver

SIR THOMAS WHITE: It is now under forty?

MR. TAYLOR: From 36 to 40 cents. I have not

seen the quotations in the last few days.

SIR CHARLES ADDIS: What is the present production of gold?

MR. TAYLOR: I will get that information and send it to you. Do you wish the figures for British Columbia or for Canada?

COMMISSIONER LEMAN: The records in Ottawa would give us the Canadian figures but we would like the British Columbia figures.

SIR CHARLES ADDIS: Has there been much increase in the last few years in the production of gold?

MR. TAYLOR: I would say so although I do not know. Our records show the average for the first six months of this year.

SIR CHARLES ADDIS: Have you any idea how much of that increased production has been assisted by the premium on gold? Is that an important factor?

MR. TAYLOR: I do not know whether it has affected the production in British Columbia but when gold is $20.67 an ounce you are limited as to the ores you can work. When more gold is wanted, the higher the price of gold, and you can then work the lower grade ores. You cannot work them except on a very large scale, say $6 or $8 ore at $20.67, but you can work a $12 ore profitably. If you take a $6 ore and put through a thousand tons you can make a profit.

SIR CHARLES ADDIS: The premium has not yet begun to tell on production?

MR. TAYLOR: It will eventually.

SIR CHARLES ADDIS: But not yet?

MR. TAYLOR: There are certain ores that we could not work profitably when gold is at $20.67, but when we are getting $30 we can make money.

SIR CHARLES ADDIS: Provided that it is believed that the premium will continue?

MR. TAYLOR: Yes, if the present price continues.

SIR THOMAS WHITE: Is the percentage of mine to prospects any less in British Columbia for gold-producing ores than anywhere else in your experience? You spoke of finding two mines out of 1,500 properties that you examined.

MR. TAYLOR: The second one was not a mine. We have a great many gold mines developed in British Columbia and a lot of prospects.

SIR THOMAS WHITE: Are any of the old properties that were abandoned years ago being prospected again?

MR. TAYLOR: Probably some of them.

SIR THOMAS WHITE: Because of the rise in the price of gold in terms of commodities.

MR. TAYLOR: Well, gold at the present time, I do not say it has reached its peak, but it has reached its peak in purchasing power on account of present commodity prices.

SIR THOMAS WHITE: In other words gold has gone up in terms of commodities?

MR. TAYLOR: Yes.

SIR THOMAS WHITE: If it had gone down in terms of commodities, or in other words if commodity prices had risen, some of the mines which have been producing would probably be closed up?

MR. TAYLOR: It is what we call a marginal property; that is one where with an increase in the price of gold you can produce at a profit. An increase in the price of gold of say $10 an ounce means that a marginal property can be worked profitably.

SIR THOMAS WHITE: That applies to other commodities as well as gold, to coffee and sugar, for instance.

MR. TAYLOR: Yes.

COMMISSIONER LEMAN: Are your gold mines free milling?

MR. TAYLOR: Ours is free milling.

COMMISSIONER LEMAN: So you are dependent solely on the price of gold?

MR. TAYLOR: Yes, sir.

THE CHAIRMAN: I think, Mr. Taylor. I think that is all we desire. Many thanks.

Is Mr. Hager present?

MR. AL HAGER: I represent the Canned Salmon Section of the Canadian Manufacturers' Association.

THE CHAIRMAN: That of course as we know is a very big industry in British Columbia.

MR. HAGER: Yes. Owing to the short notice of your sitting here we found it impossible to have a meeting of our Association to discuss the questions that might be of interest to your Commission. We are at the height of our packing season and a large majority of our members are now in the north.

THE CHAIRMAN: But if you have any serious grievance it would be present in your mind now I suppose as much as at any other time.

MR. HAGER: Well, I have none, but I shall be glad to answer any questions that you care to ask me.

THE CHAIRMAN: I think you ought to tell a little bit about the relations of your particular industry with the banks. We want a picture in our minds of the financial struction in British Columbia in regard to its industries. We have had a gentleman speak of lumber and another of mining and another of milk. You represent the canning industry. Tell us what has been your experience and how you finance your business and if the banks are operating satisfactorily in regard to your particular industry.

MR. HAGER: I willspeak of my own company alone.

THE CHAIRMAN: That is very good.

MR. HAGER: It covers a large span of years. We have operated with substantial loans from the banks under section 88 which we have found to work very satisfactorily through all those years without exception.

THE CHAIRMAN: That facility that is provided in Canada under section 88 works well in your case?

MR. HAGER: In our particular case, yes.

THE CHAIRMAN: Would you tell us what the banks have charged you for accommodation?

MR. HAGER: Six per cent without variation for twenty-five years.

THE CHAIRMAN: Have you always been able to get as much accommodation as you needed?

MR. HAGER: Always, promptly and without delay.

THE CHAIRMAN: I do not want to ask you to compliment yourself, Mr. Hager, but is your company one of very good standing?

MR. HAGER: Business has not been at all prosperous during the last three years.

THE CHAIRMAN: Tell us a little about the vicissitudes of the business in the last few years.

MR. HAGER: The collapse in the food industries during the past few years has been extremely serious and the fishing business of British Columbia has had its full share of that depression.

THE CHAIRMAN: Do you do an export business as well as a home business?

MR. HAGER: A substantial business.

THE CHAIRMAN: Do you do an export business to the eastern markets, China and Japan?

MR. HAGER: No, Japan and Russia are our competitors in the export market.

THE CHAIRMAN: Then where are your consumers?

MR. HAGER: Twenty to twenty-five per cent domestic market and the balance export on canned salmon; seventy-five per cent export.

THE CHAIRMAN: Largely to the United Kingdom?

MR. HAGER: I think it might be fair to say that France was the largest importer of our goods up to three years ago.

THE CHAIRMAN: That is interesting.

MR. HAGER: But France gave Japan a very favourable preference for British Columbia salmon with the result that we were unable to get into that market.

THE CHAIRMAN: Next to France who has been your next best customer?

MR. HAGER: THe best customer for the medium and lower grade salmon has always been England, but not for the high grades.

SIR THOMAS WHITE: Are you shut out from the export market now?

MR. HAGER: Since the new Canada-France treaty has come into being we are under a quota on even terms with Japan and the first result of that was a movement of 75,000 cases some two months ago. Just what is before us we are unable to say at this time.

SIR CHARLES ADDIS: How do you finance your export trade?

MR. HAGER: In the usual way.

SIR CHARLES ADDIS: You draw bills?

MR. HAGER: Yes, it is a cash business, and at times these bills are discounted by the banks.

SIR CHARLES ADDIS: For thirty, sixty or ninety days?

MR. HAGER: At sight.

SIR CHARLES ADDIS: You do not give any credit at all?

MR. HAGER: None at all. None has been asked for. It is a cash business.

COMMISSIONER LEMAN: You have your own agents in France?

MR. HAGER: We have. I think that is customary with all the firms.

HON. MR. BROWNLEE: Russia and Japan entered very largely into your business in the last few years, I understand?

MR. HAGER: And prior to that.

HON. MR. BROWNLEE: Had theyany advantage in doing business with other countries as compared to yourself?

MR. HAGER: Their methods of catching fish are more economical than ours, and their labour costs are infinitesimal as compared with us, but the low value of their money is probably the very largest factor.

HON. MR. BROWNLEE: That was the reason for my question. You believe that, do you?

MR. HAGER: Very much so. Italy has closed its doors against us by means of its high tariffs. In South America the business depression is so bad

and the value of their money is so low that we practically have no business with South America to-day.

HON. MR. BROWNLEE: How much has your business fallen off in the last few years?

MR. HAGER: I can express it in this way probably as clearly as in any other. Take the year 1930, when there was a normal pack of canned salmon in British Columbia. In 1931 the pack was thirty per cent and in 1932 forty-five per cent of the 1930 pack, so the 1931 and the 1932 pack was only seventy-five per cent in those two years of what had been the pack in 1930, and for that reason we were able to liquidate the 1930 pack and succeeding packs.

HON. MR. BROWNLEE: What is the value of your salmon pack in British Columbia in gross figures?

(Page 345 follows)

MR. HAGER: I think it will be approximately correct to say twenty millions of dollars. I think that figure can be easily secured.

SIR THOMAS WHITE: So far as currency is concerned your position has improved since the Canadian dollar has been more on a parity with the British pound?

MR. HAGER: Very materially.

SIR THOMAS WHITE: What advantage at the present time would you say Japan and Russia have over you by reason of their currency being on a lower basis at the present time, having regard to its legal rate?

MR. HAGER: Just that exactly.

SIR THOMAS WHITE: How much now?

MR. HAGER: I am sorry to say I cannot tell you what the yen is worth recently but I think the difference is very material.

SIR CHARLES ADDIS: One and twopence as against two shillings.

SIR THOMAS WHITE: What I am trying to get at is this: supposing the Canadian dollar is on a parity with the British pound sterling - I am speaking of today, not two or three years ago - you probably know this, Sir Charles: what would be the percentage of depreciation of Japanese or Russian currency as compared with the Canadian dollar at the present time?

MR. HAGER: Well, that is just what I say, I am unable to tell you, not knowing the value of the yen for the moment.

SIR THOMAS WHITE: What I am trying to get at is

the present situation, not a year ago.

MR. HAGER: It is quite material.

SIR THOMAS WHITE: Are not you in a better position?

MR. HAGER We are better than we were, but that is only one of the reasons.

SIR THOMAS WHITE: I just want to see to what extent you are still affected by that notwithstanding our dollar has become on a practical parity with the British pound.

SIR CHARLES ADDIS: Would it be fair to say that the benefit you derive is only while the exchange is falling, and that when the fall comes to an end the relative advantage disappears?

MR. HAGER: In so far as currency might be concerned, but the other advantage will never cease.

SIR THOMAS WHITE: Is it not the low value of their currency?

MR. HAGER: Likewise their lower cost of production?

SIR THOMAS WHITE: I was confining my question to currency alone.

MR. HAGER: Up till recently, if not to-day, British capital has fostered and financed the Oriental packs.

SIR THOMAS WHITE: How do you feel about the outlook, how do you feel about the situation now?

MR. HAGER: We feel a little better over the general outlook. The main thing - fear - seems to have been chased away, and we are all feeling a little

more hopeful. We can say frankly to you that there will be no profit this year in the canning of salmon. That applies to any concern in the province. The price of our raw produce is materially higher; selling prices have not advanced. I think they are practically the same as they were last year.

THE CHAIRMAN: Whence do you derive your optimism if your costs are going up and your profits are non-existent? You must be a very determined optimist.

MR. HAGER: Well, we have to be or we would not be fishermen, but the general demand and the movement of goods, the general trading gives us that more hopeful outlook.

SIR THOMAS WHITE: Have not you had recurring conditions, none quite as severe as this over a long period of time?

MR. HAGER: That is correct. We have had bad years, never for so many and never so accumulative.

HON. MR. BROWNLEE: Do the prairie provinces take much of your pack?

MR. HAGER: Yes.

HON. MR. BROWNLEE: Running into what figures approximately?

MR. HAGER: I would have to get that for you, Mr. Premier. They are good regular buyers of our product.

HON. MR. BROWNLEE: Has the volume fallen there very much?

MR. HAGER: Yes, I believe it has.

HON. MR. BROWNLEE: In what way? By cheaper

grades or by volume?

MR. HAGER: Our prices have been very materially lowered on fresh fish, frozen fish, cured fish, and canned fish. But the buying power on the prairies has been distinctly noticeable.

HON. MR. BROWNLEE: I was under the impression that they were buying lower grades of salmon than they had been three years ago. Is that true or not?

MR. HAGER: It would be interesting for me to get you those figures. I do not think it has been particularly noticeable.

COMMISSIONER LEMAN: Do you not think, Mr. Hagar, that that has obtained practically throughout the country? Your eastern sales, for instance, have been lower.

MR. HAGER: On canned salmon you mean?

COMMISSIONER LEMAN: Yes.

MR. HAGER: No. I think our sales have kept up proportionately.

COMMISSIONER LEMAN: Better?

MR. HAGER: No. I think they have held up about even. I think we still hold to between 20 and 25% for domestic consumption and between 70 and 75% Oriental. Domestic sales would keep up, of course, and the low prices to the public of the canned salmon make it comparable with other lines, and only for that reason I believe has the sale of canned salmon in Canada kept up to about what it usually is.

COMMISSIONER LEMAN: Have they kept up as far as the Maritimes and Eastern Canada is concerned but not as regards the prairies?

MR. HAGER: I am not quite prepared to say that

the prairie sales have fallen off. I think they have been quite normal.

THE CHAIRMAN: You could get some round figures, could you?

MR. HAGER: Yes, my lord.

THE CHAIRMAN: And you might perhaps let us have a note of them.

MR. HAGER: I will be very pleased to.

THE CHAIRMAN: We are very much obliged to you, Mr. Hager. You have given us a very clear and lucid statement.

I believe Mrs. Robertson is in the court-room. Will you come forward, Mrs. Robertson? I understand you a. the representative of the National Council of Women?

MRS. JOHN ROBERTSON (National Council of Women): Yes, sir. I am convenor of taxation and have been for several years.

THE CHAIRMAN: And has your society been making a study of banking questions?

MRS. ROBERTSON: Well, I brought up a resolution in connection with it.

THE CHAIRMAN: But it is more important to bring up a family than a resolution.

MRS. ROBERTSON: Well, I am sorry I have not had that to do.

THE CHAIRMAN: I was hoping that you might be able to give us some evidence from the point of view of women and their relations to the Bank Act, as to whether their

household requirements have been met by the bankers.

MRS. ROBERTSON: I have not dealt with that.

THE CHAIRMAN: Then we will take what you give us.

MRS. ROBERTSON: Some years ago when I introduced resolution in the Local Council of Women advocating a dominion bank it was carried unanimously, and was forwarded to the National Council at Ottawa; last year I again introduced the same resolution, and also one urging a reduction in the rate of interest, both were voted down, but we are glad to see that the government is now moving in the matter. The federated societies seem to hesitate to deal with the question in our present financial condition. At present banks in Canada have power to issue currency, the capitalists through the banking system control the governments, and so long as this exists agriculture and industry will suffer. Some time ago Premier Bennett said:

> "That the banks in being permitted to issue currency double the cash to their credit possessed the most valuable franchise in the country."

There is such universal complaint against the financial institutions in Canada that the banks cannot be properly fulfilling their duty to the people. Money issues should be made and controlled by the government. The Bank of England manages the National debt, has an issue department and a banking department; the bank can only receive notes from the issue department; the government only allows the profit from the

issue of notes against the government debt and securities surplus profits are used by the government.

In 1926 France rearranged her finances and took control of her foreign investments. At the commencement of the war Canada had $133,000,000 lent to stock exchange speculators.

The Canadian banking system is not adapted to a country in development. It is absolutely necessary that an adequate medium of exchange be supplied by the government direct. If she desired to float a loan she would save millions to the country annually by having control of her own currency.

The president of the Canadian Banking Association, speaking at an annual dinner said:

> "The time will come in Canada when we will find it advisable, absolutely necessary to establish a bank under the Dominion Government."

THE CHAIRMAN: Are there any gentlemen in the room to-day who would like to address us on any topic connected with any of the special interests? We have had some representative gentlemen, particularly, I think, from the producing point of view, and we would like to get some more representative evidence. We would like to hear from some exporters in connection with exchange in their operations. If there is no one in the room who wishes to be heard at this time I think we should avail ourselves of Professor Carrothers of the University of British Columbia.

MEMORANDUM ON CANADIAN BANKING PROBLEMS

Presented by

Professor W. A. Carrothers, D.F.C., Ph.D.,
Professor C. W. Topping, M. A., Ph. D.,
Professor G. F. Drummond, M.A., M.Sc.

In approaching the problems of Canadian banking it may be asked: what are the functions of a banking system in the modern economic world?

ORDINARY AND GENERALLY ACCEPTED FUNCTIONS

1. Acceptance of deposits under certain conditi

2. Granting of loans - commercial credit.

3. Note issue; but this is not a necessary func of a private bank, but of the government. In Canada th government has delegated this power to the private bank

In the impletion of these functions the banking system provides the volume of purchasing power and thereby unconsciously and unintentionally affects the price level. Hence it may be claimed that the intentional and intelligent control of the price level a necessary function of the banking system. It may be argued that the price level is an outcome of the volume of purchasing power coupled with its velocity of circulation, but banking policy affecting business conditions affects also thevelocity of circulation. Hence it follows that the generally accepted functions are really secondary to the main functions of any banking system in the modern economic world.

MAIN FUNCTIONS

1. To assist in the control of the price level.

This is a primary function of a banking system. By control we do not mean rigid stabilization, though for many purposes stabilization is good in itself. It is unnecessary here to recapitulate the arguments covering thi

2. Control of exchange fluctuations. It naturally follows that the rate of exchange is, relative to other price levels, a by-product of this control. Hence the other major function of a properly organized banking system is control of such fluctuations in the rate of exchange as will minimise speculation and seasonal variations.

These two main functions of any banking system illustrate the close correlation between monetary, fiscal and trade policies. A good banking system should be organized so as to facilitate a coordinated national policy covering these.

DOES THE CANADIAN BANKING SYSTEM FULFIL THE ABOVE FUNCTIONS?

Ordinary and generally accepted functions:

The banks do perform the function of accepting deposits; the banks do perform the function of granting credit; the banks do perform the function of issuing notes.

Are these functions performed adequately from the point of view

1. Of the well-being of the community;
2. of the main functions of banking?

WELL-BEING OF THE COMMUNITY

The motivation behind banking credit polic is that of profit first and of public well-being second.

While this leads ordinarily to caution and conservatism nevertheless it tends to promote the over-expansion of credit when economic conditions are good and over-contraction when business is depressed. In addition, the does not appear to be any difference in credit policy in dealing with business borrowers and public borrowers. Contraction of public credit tends to accompany contracti of business credit with disastrous social and economic consequences. This tends to intensify and prolong business depressions.

MAIN FUNCTIONS

As far as we are aware the Canadian banks refuse to admit what we describe as the main functions as being essential or in fact as being proper functions of banking at all. We insist as above that these functions are now being unintentionally performed by the banks and consequently badly performed.

WHAT MODIFICATION OF THE CANADIAN BANKING SYSTEM IS NECESSARY FOR THE ADEQUATE PERFORMANCE OF THESE FUNCTIONS?

It might be said that the admission of the Canadian banks that these main functions are necessary functions of modern banking, and an undertaking on their part to carry them out faithfully would be sufficient without any change in the structure of the Canadian banking system.

An admission on the part of the Canadian banks of conscious control of price level and of fluctuations in the exchanges would not in itself be sufficient to guarantee the carrying out of these funct-

ions in the interests of the well-being of the community and of modern business.

Centralized control is necessary for this purpose and it is doubtful if ten independent banks exercising this conscious control competitively could achieve such coordination (even with the aid of the Canadian Bankers' Association) as will make these control effective and continuous.

WHAT MACHINERY FOR THE CONSCIOUS PERFORMANCE OF THESE FUNCTIONS NOW EXISTS IN CANADA?

Certain matters affecting all Canadian banks are entrusted (under the Bank Act) to the Canadian Bankers' Association:

1. Appointment of curator.
2. Supervision of making of bank notes.
3. Delivery of bank notes to the banks.
4. Inspection of disposition made by banks of such notes.
5. Destruction of notes of the banks.
6. Custody and management of central gold reserves
7. Imposition of penalties for infringement of regulations made under the powers entrusted to them.

It is obvious that these powers do not enable the Canadian Bankers' Association to perform the functions described.

RELATION OF THE FINANCE ACT TO CENTRAL BANKING

Does the Finance Act contribute to the performance of the functions of a central bank?

It has been argued that the Finance Act performs the function similar to that of a rediscounting function of a central bank.

A study of the policy of the administration of the Finance Act reveals that the rate of interest

charged to banks on advances has been largely arbitrary and has borne no relation to the cost of rediscounting elsewhere nor to any policy of price control.

Further, the privilege granted to the banks under the Finance Act of securing Dominion notes on the pledge of securities has tended to weaken the control of bank policy exerted through the clearing house. A bank, having unwisely extended credit out of line with the credit policy of the other banks, is in a position under the Finance Act to protect its position in the clearing house by securing an advance. It is not unnatural to suppose that this would lead to less care being exercised in the administration of credit policy.

As an instrument of control the Finance Act is not only ineffectual but actually mititates against proper control.

FOR THE PROPER PERFORMANCE OF MODERN BANKING FUNCTIONS WHAT POWERS ARE NECESSARY?

1. Sole control of currency issues.
2. Sole power to rediscount bills, domestic and foreign.
3. Sole control of legal reserves.
4. Sole power to carry public accounts.
5. Sole power to carry balances abroad.
6. Sole medium for exportation and importation of capital.

These powers must go together and be embodied in one organization. Such an organization is a central banking system. All of these powers are essential to the proper control of a banking system to-day in view of the break down of the gold standard, and of the nationalistic economic policies now in operation.

WHAT ALTERNATIVE FORMS MAY A CENTRAL BANKING SYSTEM TAKE FOR A COUNTRY LIKE CANADA?

There are two broad types:

1. A central banking system superimposed on individual and independent banks.

2. The integration of all banks in one central organization.

(1.) A central bank superimposed on the existing commercial banks of Canada may take the following forms:

(a) A central bank independent financially and administratively of the private banks.

(b) A central bank owned and controlled by the privat banks.

(c) A central bank jointly owned and controlled by banking interests and public interests.

(2.) A central banking system which is an integra ion of the existing banks may take the following forms:

(a) Financial and administrative consolidation of the existing private banks into one bank.

(b) The integration of the existing private banks under a nationally owned banking system.

The next question is what alternative form best suited for carrying out the primary and secondary functions of a banking system in the modern economic world and particularly in Canada?

Let us deal first with a central banking system superimposed on the existing commercial banks. The case for this approach is:

1. That it involves the least interference with the existing banking structure;

2. That it provides for cooperation between private banking for profit and controlled banking in the public interest.

From the point of view of adequate contr alone a completely independent central bank would be mos effective. It might, however, be argued that combined control would make for more amicable cooperation between the central bank and the private banks. On the other hand, a central institution owned and controlled by the banks themselves would be unlikely to perform adequately the public functions which are involved in the control of the price level and of fluctuations in th exchange rates.

It would appear to us that in view of the financial fiscal and trade problems facing Canada adequa control in a central bank is of paramount importance. It follows, therefore, that if a central bank is superimpos on the private banks it ought to be independent financial and administratively of them.

In order to attain the measure of indepen ence required for its proper functioning, continuity of policy, and promptness of decision and action, two things are necessary:

1. Wide powers must be delegated by the government to the administration;

2. the administration must within these powers be free to act without political or interested interference of any kind.

The administrative board ought to be composed of representatives of the main economic groups in Canada together with experts in the functions of banking as a whole and in the correlated fields of government finance and trade.

The other broad type of central bank is that of consolidation of existing individual banks, under

private or public control. The case of consolidation rests mainly on:

1. The economics of unification - avoidance of duplication, unnecessary competition, clearin houses, etc.;

2. reduction in the cost of banking with the possibility of a lower rate of interest;

3. centralization of statistics. It would be possible to obtain a ready index of the volum of purchasing power and of its velocity befor the price level changes. This would be the best possible business index.

Consolidation, it has been stated, may be either private or public. The advantages of consolidation, as stated above, would accrue to both types.

As against private consolidation, however all the arguments connected with the evils of monopoly an with credit discrimination both regionally and industrial may be strongly urged. Against public consolidation it may be claimed that political pressures might have an equally deleterious effect. Much, however, would depend on the type of administration evolved and in this connection the same considerations apply regarding the best type of administration for a central bank to which reference has already been made.

How would a central banking system accomplish the purpose

(1) of controlling the price level;

(2) of preventing fluctuations in the exchanges?

This would be done through the use of the wide powers suggested above.

Full control over the issuance of credit and currency would not under certain circumstances preven a fall in the price level nor would a contraction of credit and currency always prevent a rise in the price

level. Nevertheless, intelligent and conscious control of these two means would tend to reduce the violence and amplitude of price level variations. Although, therefore, it is not possible to control the price level at a times by a central banking policy alone, yet the price level cannot be controlled without it.

By means of the power to hold balances abroad and to control export and import of capital the central bank would be in a position to impose such policies as were considered best in the national interest.

Particular attention is drawn to the powers we consider necessary for an adequate central banking system in Canada, especially Nos. 4, 5 and 6. The Central Bank having sole power to carry public accounts would enable a policy of public credit to be adopted with a view to the well-being of the community. As pointed out above there should be a distinction in the policy governing public credit from that governing commercial credit. It is practically impossible for this to be done under the present system.

Sole power to carry balances abroad, and sole control of the export and import of capital are necessary to-day to guard against harmful speculation in foreign exchange, and to prevent harmful fluctuations in exchange rates. The gold standard no longer exists to control this. It is unlikely that the gold standard will be restored for some time. Some other machinery control is necessary. Control of exchange rates and of international movements of capital have been found necessary already to meet the situation. The Central Bank

would appear to be the logical institution in which to vest this control in Canada.

In view of the existing world situation, and the problems which are likely to face Canada for some time to come, centralized control of the banking and financial system is desirable. We do not suggest that modification of the banking system alone will solve these problems. We emphasize the interrelation between banking policy, and government financial policy and trade policy. There must be coordination between all these. Centralized control of the banking system is necessary to secure this coordination.

The banking system should be looked upon as a public utility and treated as such. There is no part of our economic organisation that is more vital to the well-being of the community. The place of Canada in the world economic system to-day is one of extreme delicacy and danger. Serious problems of major importance are facing us. Quick action and adjustment may be necessary. Centralized control of the banking system is vital to the adequate handling of Canada's economic problems and this control will be still more important if it is found necessary to adopt national economic planning in Canada. That this will be necessary is altogether likely, in view of the present policy of the more powerful nations. At any rate Canada should be prepared.

[illegible]

THE CHA IRMAN: Have you a faculty of political economy in the University here?

PROF. CARROTHERS: Yes, political economy, commerce and sociology.

THE CHAIRMAN: Are you the Dean of the Faculty?

PROFL CARROTHERS: No, sir. Professor Angus is the head of the Faculty. Unfortunately, is a delegate to the meeting on pacific relations at Banff at the present time.

THE CHAIRMAN: Will you just tell us the position of your faculty in studying these matters?

PROF. CARROTHERS: Prof. Angus who is the head of the department deals with political science and government. Prof. Topping is professor of sociology; Prof. Day is professor of commerce; Prof. Drummond and myself deal with the general field of economics, including banking and taxation.

THE CHAIRMAN: It is quite a well-manned faculty, if I may say so.

PROF. CARROTHERS: We hope so, my lord.

THE CHAIRMAN: I suppose you have naturally given special study to the problems arising in the province and in Canada?

PROF. CARROTHERS: Yes, sir.

THE CHAIRMAN: You know the nature of our terms of reference, professor?

PROF. CARROTHERS: Yes, sir.

THE CHAIRMAN: Could you, from your study of the economic problems of British Columbia or of Canada generally, suggest any respects in which the banking structure or bankibg organization has, in your view,

proved adequate or inadequate to the calls upon it?

PROF. CARROTHERS: I might say, your lordship, in that connection a few of us prepared informally a memorandum for presentation to this commission so as not to take up too much of your time in public, realizing that you are particularly anxious on your tour through Canada to meet the business men and those who are dealing in a practical way with the banks; I have given a copy of this memorandum to your secretary and I may, if it meets with your approval, refer very briefly to some of the main points in this memorandum.

THE CHAIRMAN: You can assist us, to some extent, on the technical aspects of our problem, because there are technical problems which have a practical aspect.

PROF. CARROTHERS: I shall try to avoid anything that is purely technical, your lordship.

I might first of all explain the nature of this memorandum. It is not a memorandum as coming from the University as such, nor from the Department of Economics. We only got the request of the commission on Saturday to appear, and those of us who are in town got together and discussed the best method of presenting our views to the commission, and this document is merely a personal document from the three of us who met on Saturday evening last, that is, Professors Topping, Drummond and myself.

Now, we are not dealing with the purely commercial aspects of banking, realizing that the business interests will be able to give you that information. It is from the wider aspect that we deal with the subject.

Our contention is that in the performance of the ordinary commercial functions the banks in Canada unconsciously and unintentionally perform certain other very important functions which we consider really to be the major functions of banking under the conditions of the modern world. In carrying out the ordinary commercia functions the banks provide the community with purchasing power, and in doing so they affect the general level of prices and, arising out of that, they also affect the rates of exchange which are really the functions of the general levels of prices. Our contention is that these are, under modern conditions, primary functions of banking, and that the Canadian banking system should be reorganized so as to recognize that these functions, which are incidental, are of primary importance to the economic well-being of this country.

The question might be asked, does the Canadian banking system, as at present organized, adequately fulfil these functions from the point of view of the general economic well-being of Canada. Then the question might be asked, could a reorganization of the banking system of Canada, without touching this fundamental structure, be carried out so as to bring about the desired results.

We are very doubtful whether ten competitive banks could be brought together and unified as competitive banks, even with the assistance of the Canadian Bankers Association, so as to perform these functions adequately. So we were driven to the conclusion that to do this there would have to be a more fundamental

reorganization and centralization of control in the Canadian banking system. And the conclusion that we arrived at was that some form of central organization whi would correspond to a central bank would be required to do this.

Then the question arose as to the form of this centralized organization. It might be an organizati controlled entirely by the banks. It might be an organization controlled entirely by public authority, or an organization controlled jointly by the banks and by publi authority. We felt that it would be unlikely that an organization controlled entirely by the banks would be adequate. On the other hand an organization controlled entirely by public authority might be subject to political influence. And we felt that an organization, a centralized organization, to be effective, would have to be independent of the control of the banks, and also independent of the temporary fluctuations of political opinion throughout the country.

So we suggest, that a central organization be created composed of representatives of the main economic groups in Canada together with experts in the functioms of banking, experts in the functions of governmental finance and in the functions of trade, because we believe that to-day, probably as never before, banking policy operations and government finance and trade operations, are apparently linked together, and those operations must be correlated, and a central banking organization is essential to the proper correlation of these three public problems.

In order to do that we suggest that this

body should have certain very definite powers. First of all that it should have sole control of currency issue in Canada. Second, sole power to rediscount bills, domestic and foreign. Third, sole control of legal reserves. Fourth, sole power to carry public accounts. Fifth, sole power to carry balances abroad. And sixth, sole medium for exportation and importation of capital.

Now, some of these are fairly drastic recommendations, that is, if you take into consideration what has been so far considered to be only the proper functions of central banks. But we look at this problem from the point of view of conditions as they are to-day facing this country, and also the conditions which are likely to face this country in the future because we have got to deal with the future rather than with the past.

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but the feeling is that the economic policies which are now general throughout the world, that is, the nationalist economic policies are bound to affect us very materailly here in Canada.

We are a dependant Canada in the sense that we are dependant largely upon foreign markets. We must have foreign markets; otherwise we would have to make major re-organizations of our economic structure of a rather painful character; so that if our banking system is to carry out its proper functions, the central organization must have these wide powers.

For example, the control of the price levels would be a difficult thing in Canada without the power to control foreign balances abroad. Without the money market or the bill market, the central organization of the Canadian banks would not have the power of, say, the Bank of England, and it would have to secure that power in some other way, and in order to do that it would have to secure control of the foreign balances, and the exports and imports capital.

We feel the only institution which could be given this power, and which could handle it adequately would be a central banking system, a centralized control of our present system in Canada.

We have no quarrel at all with the commercial activities of the banks in Canada. Apparently these are done very satisfactorily, very adequately, and very efficiently. We are dealing with it from the broader point of view of the major economic problems which Canada is facing at the present time, and will face for several years to come.

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We are a dependent Canada in the sense that we are dependent largely upon foreign markets. We must have foreign markets; otherwise we would have to make major re-adjustments of our economic structure of a rather painful character; so that if our banking system is to carry out its proper functions, the central organization must have those wide powers.

For example, the control of the rates [illegible] would be a difficult thing in Canada without the power to deal in foreign balances. Without the power market or the bill market, the central organization of the Canadian banks would not have the power of, say, the Bank of England, and it would have to secure that power in some other way, and in order to do that it would have-- to secure control of the foreign balances, and the exports and imports control.

We feel that all the inducements which could be given this power, and which would [illegible] it eventually would be a central [illegible] essential to [illegible] our present system in Canada.

The next question is with regard to the commercial activities of the [illegible]. Apparently these are here very restricted, very [illegible], and very [illegible] that it [illegible] the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

We no longer have the control of the gold standard, and some other form of control must be created over our foreign exchange. It might be said, for example, that we have a certain amount of control through the Bankers' Association and through the Finance Act. Well, the limited powers which the Bankers' Association have make it impossible for them to do this work. The Finance Act rather militates against control because before the Finance Act came into operation the clearing house exercised a more definite control than it does to-day. If a bank happens to make unwise loans it can use the facilities of the Finance Act to make it right with the Clearing House. So that the Finance Act would appear rather to militate against a centralized control of banking policy rather than in favour of it, so we are of the opinion that a major re-construction of the Canadian Banking System is necessary in order to enable this country to meet the various problems which the country is facing at the present time.

THE CHAIRMAN: It is rather, if I may so put it, to further equip the banking organization of Canada with what you may regard as the essential element in modern banking structure, with a view of developing the economic aspect of the country?

MR. CARROTHERS: Yes, my lord.

THE CHAIRMAN: One aspect in your enumeration was not especially noticed. Is it not very desirable that Canada should be able to speak of these large international matters with one voice?

MR. CARROTHERS: Yes, your lordship.

THE CHAIRMAN: Should there not be a policy for

Canada in those matters should be able to be expressed in the financial councils of the world?

MR. CARROTHERS: Yes. That is extremely important, particularly in view of the world's position of Canada. It would appear from the economic point of view that the world is dividing itself into certain financial blocs; you have the Sterling bloc; you have the United States bloc; and you have the gold bloc. But having these blocs does not settle the problem. We must create machinery to enable us to co-operate with whatever group of nations we go in with.

THE CHAIRMAN: And it is important that you should be able to express the opinion of Canada in such councils?

MR. CARROTHERS: Yes, your lordship.

THE CHAIRMAN: However, at the present time, no matter how good their policies may be, they cannot speak with one voice because they are composed of independent bodies?

MR. CARROTHERS: That is true.

SIR THOMAS WHITE: Just in elaboration of your statement: What would be the organization of your Central Bank? For example, as to capital: how would the capital be provided? In the United States I think it is provided by the banks. In Great Britain I think the bank is privately owned but discharges the functions of the Central Bank?

MR. CARROTHERS: Yes.

SIR THOMAS WHITE: Have you reached any conclusion or have you any suggestions to offer as to the source of the capital - as to what sources the capital would be provided for the Central Bank?

MR. CARROTHERS: I do not think the question of the source is a very important one.

SIR THOMAS WHITE: That may be, but I wanted to know your opinion. Supposing it is not important; there should be some capital in a central bank. Have you reached any conclusion as to how or from what source that capital would be provided?

MR. CARROTHERS: If you will pardon me again, Sir Thomas, I think in order to give you what is in my mind, I will have to repeat that I do not think the question of capital in a central bank is very important. The capital requirement is relatively small, and I do not think the question matters very much.

The only thing I would like to be sure about is that the providing of the capital would be such as not to interfere with the independence of the controlling bank.

SIR THOMAS WHITE: That is the reason I asked you the question.

MR. CARROTHERS: Yes, Sir Thomas.

SIR THOMAS WHITE: With regard to the directors, those who would direct the operations of the bank: How would they be appointed? Have you thought of that?

MR. CARROTHERS: They would presumably have to be appointed by the Dominion government.

SIR THOMAS WHITE: In the first instance?

MR. CARROTHERS: Yes. And we suggest that they should represent the main economic interests of Canada, that is, agriculture, and every other industry, together with exports in the various provinces.

SIR THOMAS WHITE: You spoke of the bank carrying the foreign exchange: Was it in your mind that some of these might be exchange reserves against which currency could be issued by the bank; that is, the central

Bank issuing currency against exchange reserves?

COMMISSIONER LEMAN: The gold exchange?

SIR THOMAS WHITE: Yes, the gold exchange.

MR. CARROTHERS: There would be no objection to that. It is generally accepted that there is no fundamental objection to the central bank issuing currency against its exchanges.

SIR THOMAS WHITE: Would you care to express an opinion of the effect of this policy during say, the last few years?

MR. CARROTHERS: Well, Sir Thomas --

SIR THOMAS WHITE: If you do not care to express an opinion, very well. I simply asked you if you had thought of it.

MR. CARROTHERS: Of course, the gold exchange standard broke down through the breaking down of the gold standard, consequently it is extremely difficult to say from experience very much about it, as it has not been in existence hardly long enough.

SIR THOMAS WHITE: What I had in my mind was the losses which were sustained by some of the central banks. I am not controverting your opinion but I had in mind the losses sustained by some of the central banks, you understand, carrying exchange reserves, let us say in the London market, when the gold standard was departed from.

MR. CARROTHERS: Yes.

SIR THOMAS WHITE: Now, just one other question, Mr. Carrothers: As to the exports and imports of capital and the issue of securities. Let us take a concrete case, because sometimes that puts a principle to the test, as they say. Supposing the province of Manitoba or the

Province of Quebec or Ontario desires to make an issue of securities payable in New York, as they have in the past, of course; is it in your mind that the central organization of which you speak would be in a position to prevent them from doing that?

MR. CARROTHERS: I should think it is extremely important that there be a centralized policy for the Dominion of Canada with regard to all forms of foreign loans.

SIR THOMAS WHITE: I grant you that. Do you see any difficulty under the British North America Act?

MR. CARROTHERS: In the case of constitutional difficulty I think we have to introduce machinery into our Canadian system which would get around the constitution. The constitution was created under different economic conditions than exists to-day. If there are political difficulties in getting the constitution changed, then we must create the machinery to meet the economic conditions which we have at the present time.

THE CHAIRMAN: Would the central bank be a Dominion bank?

MR. CARROTHERS: Yes.

THE CHAIRMAN: They would be prepared to assist the provinces or the Dominion with its advice?

MR. CARROTHERS: Yes, and all municipalities.

THE CHAIRMAN: The whole financial category?

MR. CARROTHERS: Yes.

THE CHAIRMAN: Then, if that be so, it would have be a body with no legal sanction attached to it.

MR. CARROTHERS: Well, I would not like to pass any remark on that, my lord.

THE CHAIRMAN: We must remember that under the constitution as it stands there is a certain allocation

of functions.

MR. CARROTHERS: Yes, my Lord.

MR. CHAIRMAN: Taking even the Bank of England: the authority with which he speaks is rather the authority of its prestige and knowledge than any legal power to enforce its view. You do not contemplate any institution such as you have in mind would be entitled in any way to dictate to the executive government of the country.

MR. CARROTHERS: No, because the representatives of the people must take the final responsibility for the welfare of the people.

THE CHAIRMAN: There appears to have been some misconception in that the functions of the bank were as some sort of a dictator. That has not been the function of a central bank?

MR. CARROTHERS: No.

THE CHAIRMAN: The purpose of it should be purely a body of specially skilled advisors who have accumulated prestige, which may be accepted and put to the use of the executive authority for the time being?

MR. CARROTHERS: It depends, your lordship on how you use the term "Advisor". I am of the opinion that this body should have the power of directing the policy.

SIR THOMAS WHITE: That is what I understood.

THE CHAIRMAN: Yes, but directing the policy in this sense, that it is entitled to recommend the course of action which should be taken; it has no authority to infringe on the autonomy of the provinces? Supposing a province was desirous of raising funds in New York;

and the body of skilled advisors are of the opinion that it would be injurious to the credit of Canada at the time, that it was inopportune and disadvantageous to Canada; you do not suggest that the bank would be entitled to enforce its view as against the view of the Dominion Executive or the Provincial Executive?

MR. CARROTHERS: I think that is a matter which should be carefully considered, in view of the particular problems facing us to-day. Our division into provinces has merit from a political point of view. It has not the same merit from an economic point of view.

THE CHAIRMAN: I am anxious to see how far it is possible to fit this implement into the existing structure of Canada, because one must remember that there are great differences in the characteristics appertaining to it; it is not stereotyped. If your recommendations were given effect to, you would require to have a central bank which would be applicable to Canadian conditions, and one of your Canadian conditions is your constitutional position, and it would have to be so arranged as to be adjusted to the constitution.

MR. CARROTHERS: That might present some difficulties. I would take this position with regard to that; if there were legal difficulties in giving the central body the power to act in the best interests of Canada, it should be given such wide powers that it could bring indirect pressure to bear upon public bodies in the best interests of the community.

THE CHAIRMAN: In the long run would its effectiveness not depend upon its prestige?

MR.CARROTHERS: Absolutely.

THE CHAIRMAN: That is rather a slow growth; it has to be earned, I should think.

MR. CARROTHERS: I think there are a sufficient number of representative people in Canada who could be put on to a board like that, and who would acquire confidence very rapidly.

THE CHAIRMAN: Then you stress the importance of the independence of such a body?

MR. CARROTHERS: Yes, my lord.

THE CHAIRMAN: It must not be a body with any interest in private profit.

MR. CARROTHERS: No.

THE CHAIRMAN: Nor open to the suspicion of being swayed by any interests?

MR. CARROTHERS: No, sir. That is a functuion which must be performed by the privately owned profit-making institutions.

THE CHAIRMAN: That is a little unkind for the Bank of England. The Bank of England, as everyone knows, does not exist for private profit, although it is a private institution; no one ever suggested that it was motivated in any way for private profits, but, oddly enough, it is a privately-owned bank.

MR. CARROTHERS: Yes.

THE CHAIRMAN: I think only so recently as the World's Economic Conference there was a resolution passed representing the opinions of all the nations that the independence of a central bank was essential, independent particularly of governmental interference; otherwise you

deprive it of its real value.

MR. CARROTHERS: Yes.

THE CHAIRMAN: How that can best be secured is the difficult problems. What isyour idea of how this independence should be secured? How will you bring it into independent being?

MR. CARROTHERS: Well, my lord--

THE CHAIRMAN: It cannot come out of nothing, you know.

MR. CARROTHERS: It would be based, of course, primarily on the legislation of the Dominion Government, but it is my opinion that if you give a group of men or a Commission the power we suggest here, the legal powers - give them the control and power to hold foreign balances, the power to control the export and import of c apital; the power to carry all public accounts, you have immediately created a body with tremendous influence over the other financial institutions of the country.

THE CHAIRMAN: You think it would effect some economy in the necessary reserves?

MR. CARROTHERS: I think it would effect economies in many respects, your Lordship; not only in the reserves, but in the administration of the banking system.

THE CHAIRMAN: It would be the bankers bank, as it is everywhere else; the commercial banks would keep certain balances with the central bank?

MR. CARROTHERS: Yes, sir.

THE CHAIRMAN: Now, from the public's point of view. I think there possibly has been some misconception as to what these views are; on the other hand I imagine in suggesting such new equipment of the Canadian Banking System, you have

in view, it will rightly be of benefit to the people of Canada. All of our institutions are brought to that test in the end, whether they actually promote the welfare of the public; in what way do you think institutions of that sort in the long run would redound to the benefit of the public? How could it produce something that is of value to the public? Because that question is often asked, "What is the use of giving us a new institution unless you tell us how it will benefit ourselves in some direct way?" How do you envisage the practical point of view you have in mind?

MR. CARROTHERS: In two general ways, your Lordship. First of all, your central institution would assist or could be made to assist in the control of the general price levels. By that I do not mean rigid stabilization, and I do not want to go into a technical argument covering that.

THE CHAIRMAN: Tell us, as far as it is susceptible of being told in popular language how can it control the price levels.

MR. CARROTHERS: First of all, let me say that the central bank alone, by the use of its power make it at all times possible to control price levels. There are circumstances under which this policy cannot be effected. So the idea would be that this institution would equip our banking system with the machinery necessary to cover these national policies, taxation, and trade and other major things in cooperation with the national government and it would become the direct instrument of controlling prices mainly through be control of credit, and, of course, of currency, which is a minor consideration to-day.

That would be of very great advantage to the public, an advantage to the people of this country because a great many of our difficulties at the present time are due to the fall in prices, which has increased the burden of not only public debt but private gain.

THE CHAIRMAN: Again there was practically unanimity amongst the nations that the prices of primary commodities must be raised if we are to have a revival of trade. That is an accepted canon at the present time. Would this institution serve that purpose?

MR. CARROTHERS: Yes, sir; it would be an instrument to be used in controlling price levels, raising them, or lowering them.

SIR THOMAS WHITE: Who would determine the policy, under your plan, as to whether a price level should be raised, or whether a price level should be reduced, because there are other periods in which there is agitation for the reduction of price levels. I am thinking at the present time of a debate at Ottawa some twenty years ago in which I participated. How, under your plan, would you decide that? Who would determine a policy of raising price levels or reducing them? Would it be this Board? Would the government have any authority to express its views to that Board?

MR. CARROTHERS: Naturally such a board would have to work in close co-operation with the government, but in the final analysis the decision would remain with the Board.

SIR THOMAS WHITE: Yes, I think it would under your plan. You have stressed government interference with such a question as price levels. Would not the government be influential with such a central

bank in Canada? Get it down to this: Would a nation be entirely satisfied to hand over to a body, no matter how eminent, entirely independent of the government, the matter of deciding the policy of whether price levels should be raised or lowered, or many other questions which arise out of such powers as you propose to give? Do you think that would be quite free from governmental interference?

MR. CARROTHERS: What I mean by "Governmental interference" is freedom from interference on the basis of temporary political opinion which is not expressive of the people as a whole, or the peculiar interest in Canada or the temporary interest in the country. I think our statesmen and politicians would at times be very glad to have a Board like this to which they could refer and upon which they could put any blame for not having done things, which they now have to put upon the politician. It is a matter of handing over authority. No one suggests that this Board should become the governmental authority of Canada, but it should become the instrument through which a truly national policy can be carried out in such a federation as we have in Canada to-day.

THE CHAIRMAN: Available in an advisory capacity?

MR. CARROTHERS: Yes, available in an advisory capacity, but naturally it would have to work in co-operation with the many policies of the country. You cannot have one institution working one way, and another institution working another.

SIR THOMAS WHITE: Would you express any opinion on the working of the Federal Reserve System of the United States? Has it been satisfactory?

MR. CARROTHERS: It would take a long time to express an opinion on that, Sir Thomas.

SIR THOMAS WHITE: How is it constituted - briefly?

MR. CARROTHERS: The Federal Reserve System of the United States is of course a federation of central banks, and was such because of the constitutional character of that country. It has many political aspects.

THE CHAIRMAN: It is not a central bank?

MR. CARROTHERS: Not in the sense that we are speaking of it now.

SIR THOMAS WHITE: I am asking for information, because it is not in my mind at the present time. Who appoints the directors of the Federal Reserve Bank?

MR. CARROTHERS: They are appointed by the Central government representing different banking interests, agricultural interests, and so on.

SIR THOMAS WHITE: But the appointments are in the government?

MR. CARROTHERS: Yes.

HON. MR. BROWNLEE: You would not recommend that for Canada -- the definite allocation of certain men from certain industries?

MR. CARROTHERS: I think it would be very advisable to have the main economic groups in Canada represented.

HON. MR. BROWNLEE: But not in a fixed ratio?

MR. CARROTHERS: No but the main interest should be represented.

THE CHAIRMAN: You are so apt to have representation of interests on a body; you have a series of delegates who feel they must keep their heads up must often feel "If I do not take that line, those whom I am supposed to represent may resent my attitude although personally I feel differently." He is liable to be called to account.

SIR CHARLES ADDIS: You do not propose, as in the case of the Federal Reserve Board of the United States, to appoint government officials?

MR. CARROTHERS: No, I think it should be as independent as possible.

SIR CHARLES ADDIS: Your main point is that the bank should be an instrument for carrying out a policy, in which, in any event, the government must finally have the deciding voice?

MR. CARROTHERS: Yes.

SIR CHARLES ADDIS: With regard to the supply of credit, have you in mind that the government should determine the amount of the fiduciary issue, or would there be some limit to the bank's powers of inflation?

MR. CARROTHERS: I think under present conditions there are very great difficulties in having a fixed fiduciary issue.

SIR CHARLES ADDIS: And in having your credit system related to that, because economic conditions change very rapidly?

MR. CARROTHERS: Yes, and I think one of the virtues of an institution of this kind would be the promptness of

action, of reaching a decision under which it could act in a particular instance. If you have to wait for the government to persuade all the members of parliament to persuade all the people that the action was good the time for opportune action might be passed, and it would seem to me that the quicker the action the better it would be.

SIR CHARLES ADDIS: You might arrive at the desired flexibility by a graduated system of penalties for excess issues, but I take it you would have some other way of limiting the fiduciary issue in such a way as to create public confidence in the stability of the currency, or would you leave that flexible?

MR. CARROTHERS: I would leave it flexible and relate it mainly to the movements of the price levels.

SIR CHARLES ADDIS: As determined by the index number which might be agreed upon?

MR. CARROTHERS: Yes, worked out adequately by the statistical branch at Ottawa.

SIR CHARLES ADDIS: There is one point to which you have not referred, the advantage which a central bank would possess in carrying out the monetary policy of the Canadian government. I think you will agree that it might be of great advantage owing to the increased international interests of Canada to have an institution which would represent Canada abroad in connection with any international currency policy which might be under discussion. Have you in your memorandum considered that point?

MR. CARROTHERS: We have not made any definite statement, sir, with regard to that, but we are fully aware of it.

SIR CHARLES ADDIS: You would agree that co-operation would be of great advantage?

MR. CARROTHERS: Yes, we would be in entire agreement with that idea.

THE CHAIRMAN: Just one question there from the pointof view of allaying possible anxiety. Such an institution is not necessarily in any sense inimical to the interest of the commercial bank?

MR. CARROTHERS: No. The commercial banks could carry on their work without any direct interference at all. They could carry on their loans--

THE CHAIRMAN: You have paid a justifiedly deserved tribute to the commercial banks?

MR. CARROTHERS: Yes.

THE CHAIRMAN: And what they have done in the past in assisting in the development of Canada. You do not contemplate any restrictions in their activities?

MR. CARROTHERS: No. Their contacts with the business interest in Canada would be the same as they are to-day; they would make their loans on banking principles as they saw fit.

THE CHAIRMAN: But might one go so far as to say this, that if such an institution were established and acquired the confidence of Canada, it would result rather in the strengthening of the position of the chartered bank, than the weakening.

MR. CARROTHERS: Yes. I think the chartered bank should really support an idea of that kind.

THE CHAIRMAN: Might it not be that part of the opposition or anxiety of the chartered bank in the matter

is their apprehension that they may lose their right to issue notes.

MR. CARROTHERS: That I understand is of value to the banks.

THE CHAIRMAN: Yes, but in some instances it has not been of much value in other countries, but here it has been of some value.

MR. CARROTHERS: Yes.

THE CHAIRMAN: Is it essential to your scheme that at the outset the right to issue notes should be withdrawn from the chartered banks and entrusted exclusively to the central bank?

MR. CARROTHERS: I think, your lordship, it would be a good idea in view of the whole character of the scheme and the strength of the system.

THE CHAIRMAN: You are quite right to this extent, that I think it has always been said to be an essential feature of the central bank, that it shall have charge of the note issue, but it is not absolutely universal. There is a country with which I have some association, called Scotland, where the Scottish banks, which after all have been rather pioneer banks in the world's history, although not on a large scale, perhaps, have been allowed to retain their right to issue notes, within limits, of course. Would it not be fatal to the working of your scheme if some share of the issue were still allotted to the banks?

MR. CARROTHERS: Well, I would not say it would be absolutely fatal, but I think it would be eminently desirable that the note issue should be centralized. I do not think that the chartered banks would be very much injured by the

withdrawal of the note issue, although it has been stated that it would mean closing of certain branches of the banks. I think perhaps that would be a good thing. We are rather over-supplied with branches at the present time, and the banks could make economies there and still give adequate service to the people of this country.

HON. MR. BROWNLEE: Have you made any study at all of the extent to which there is an excess of branches in British Columbia, or whether the reduction of the number of branches would seriously affect the province?

MR. CARROTHERS: Not a detailed examination that I could present to you at the moment, but that could easily be secured. What I have in my mind, for example, refers to the City of Vancouver. You take one of these local shopping districts and in some cases you get two or three branches of banks there, under a competitive system, of course. All of them are anxious to secure deposits, and quite rightly so, but it would not appear to be necessary to have all these branches there.

As far as the rural communities are concerned; that could be worked out in a similar way. You would have certain strategic point at which your banking institutions could be located to give adequate service to the rural community?

THE CHAIRMAN: If yourrecommendations were carried into effect and the central bank should take over the note issues, there might be a very considerable lee-way in reducing the number of branches, which would not seriously affect Canada.

MR. CARROTHERS: That would be my opinion, sir.

MR. LEMAN: At some point where there is

competition, but the volume of business is small, you appreciate there would be some hardship?

MR. CARROTHERS: If the banks were withdrawn?

MR. LEMAN: Yes, and if the note-issuing privilege were withdrawn, because then to get money they would have to pay for it.

MR. CARROTHERS: That question, of course, centers around the sources of profit to the banks. My contention is that the profits secured from the note issues is not of sufficient importance to seriously endanger the banking system of Canada. As far as that is concerned I think the banks are in a sufficiently sound position to take that. What would be more important would be the closing of the banks in an important community and the witdrawal of service, but my contention is that is not necessary.

THE CHAIRMAN: Suppose I put it this way, as I have heard it put before: the only circumstance which enables a bank to have a branch in some small place is the fact that there are note issues, and they can run it economically, but if they had to purchase their note, it would be the difference between the branch paying and not paying, and the directors might say, "We will close that branch down."

MR. CARROTHERS: Yes.

THE CHAIRMAN: What is your comment on that?

MR. CARROTHERS: I think in actual practice that situation would be unlikely to arrive very often,, that is, the possibility of the withdrawal of the bank, because if a bank is established there, there is a certain

advertising value in having a bank in a locality and its value to the bank should be taken into consideration. But the community which could not support a branch of the bank would probably be the community which would suffer a great deal if there were not a branch there. It would be a matter of going some little distance to the bank. In parts of the British Isles where the population is much more dense than it is here you have communities which have to go several miles to a bank, and sometimes a banker's agent will pay a visit once a week to that community and do the banking business, generally on market days. Something like that could be arranged in Canada. An agent of the bank could visit a district and do the banking business of the community.

SIR THOMAS WHITE: Do you not think that convenient banking facilities increase the amount of savings? What I have in mind is this, and it has come within my experience once or twice; a branch comes into existence where one did not exist before; at once an increase in the savings becomes apparent in that community.

MR. CARROTHERS: That may be, Sir Thomas.

SIR THOMAS WHITE: I want to ask one other question. You could hardly authoritatively pronounce upon the effect this would have upon the closing of branches without seeing the profits or losses of that particular branch. Would it not depend upon the margin of profit or loss? Supposing there were a hundred small branches making $500 a year. Let us assume the note circulation was withdrawn from the bank; they may carry from $6,000 to $15,000 a year, depending on the branch,

to meet the demands arising from day to day. If they had to purchase the currency they are out the interest. Supposing this just made the difference between the profit and loss of that branch; would that have a bearing upon your opinion as to the advisability of depriving the banks of the privilege of their note issue?

MR. CARROTHERS: It depends entirely on the number of branches affected, and the importance of those branches, and also whether the suggestions I made could be put into effect, that is, for instance, a man who once a week would go to these places and do the banking business for these people.

SIR THOMAS WHITE: Just one other question: I understand the central bank would make loans to banks and the government.

MR. CARROTHERS: Yes.

SIR THOMAS WHITE: The central bank would make loans to provincial governments, the Dominion government, and to municipalities?

MR. CARROTHERS: Yes, handle all public accounts.

SIR THOMAS WHITE: And would pronounce upon the credit of the province or the municipality in making these advances?

MR. CARROTHERS: They would necessarily have to do so, just the same as our private banks do now.

SIR THOMAS WHITE: What about loans to individuals?

MR. CARROTHERS: The commercial banks would naturally carry that.

SIR THOMAS WHITE: You do not contemplate a central bank making a loan to any individual throughout the continent?

MR. CARROTHERS: No, that would be in competition with commercial banks.

THE CHAIRMAN: They would not engage in trade in any way whatever, or have any private customers on their books.

MR. CARROTHERS: No. If a school board, for instance, wished a loan to carry them through part of the year, instead of going to a private bank they would go to the central bank.

MR. LEMAN: Does that mean opening up a set of branches?

MR. CARROTHERS: You would have to have an organization in each province representing the central body of some kind.

MR. LEMAN: Only one?

MR. CARROTHERS: I do not see why there should be any need for any more than that?

MR. LEMAN: You think a school board in Southern Saskatchewan, or in Northern Saskatchewan, if you prefer, would have to make its arrangements in Regina, for instance?

MR. CARROTHERS: No reason why it should not.

SIR THOMAS WHITE: Under your plan would the central bank be obliged to make loans to municipalities or public bodies or governments, say, upon request, or must they determine what credit or amount they will extend? In other words, must they treat them as a bank treats its customers to-day?

MR. CARROTHERS: They would have to treat any public body on a purely business basis as far as the credit is concerned. The difference would be that this association would have only in estimation the public welfare,

and the question of profits would not enter into it in any way whatsoever. It would be purely a public matter.

THE CHAIRMAN: Gentlemen, we propose to adjourn now for a short interval, and in the afternoon we shall be very glad to hear any further witnesses or representatives who would like to put their views before us. If those who propose to do so will be kind enough to hand their names to the Secretary, we will be able to arrange for getting on with the business, and I suppose we should probably sit for a couple of hours for that purpose, and see how long it takes. We want some time left on our hands for private conferences in addition to which we shall give up part of this afternoon to hearing any further statements which may be desired to be made. Will those who wish to do so, kindly give their names to the Secretary before half past two.

We will stand adjourned now until half past two this afternoon.

--

The Commission adjourned at 1.10 P.M. to resume at 2.30 o'clock P.M.

(Page 405 follows)

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: I am obliged to those who have kindly handed in their names to the secretary. The first on the list is that of Mr. McCrossan who represents, I understand, the Mayor and council of Vancouver. Is Mr. McCrossan here?

MR. G. E. McCROSSAN: My lord, I am instructed to present a resolution passed by the council of the corporation of the City of Vancouver directed to the question of interest rates, and in so doing I shall be as brief as possible and not take up too much of your valuable time. The resolution which, with your lordship's permission I might read was passed on August 15, 1932, and is as follows:

> That whereas the Dominion government, under section 5 of the Finance Act, are making advances of funds to Canadian chartered banks, against municipal securities, at an interest rate of three per cent;
>
> And whereas, a portion of these funds are in turn borrowed from the said chartered banks in Canada, by cities and municipalities throughout the Dominion, at interest rates of from 5½ to 7 per cent;
>
> And whereas, the said chartered banks are making a profit of from two to four per cent on approved provincial and municipal securities, that applications be made to the Dominion government for legislation to provide

> that municipalities in Canada shall have similar facilities for advances on municipal securities from the Dominion government for temporary financing as are now given to banks under the Finance Act.

That, of course, under the Finance Act as at present drafted would not permit such advances as the city council is suggesting here. This resolution, or the purport of it, has been passed by a number of cities and municipalities in Canada, so I am instructed by the Union of Canadian Municipalities. Its object is to endeavour to secure in the cost of local government lower interest rates, if possible, on temporary borrowings. I only had the advantage of a conference with council yesterday. I asked whether they were referring in particular to temporary borrowing on the issued or authorized securities that had not been placed on the market due to unfavourable market conditions, or whether they had in mind advances against anticipated current tax collections. So far as the city council of Vancouver are concerned they are directing their attention particularly to temporary borrowings on capital issues that have not been marketed. They have had experience in these depression years when market conditions were not favourable.

The rates that the City of Vancouver has had to pay may be of some informative value to the Commission and I would like to give a few figures. The total amount of interest paid to the banks on borrowings in 1930 was $336,387; in 1931, $252,237; in 1932, $376,770;

and up to the 31st of July of this year, $287,645. The interest rates on capital borrowings were from January to June, 1931, 5¼ per cent; June to December, 1931, 5 per cent; January to May, 5½ per cent; May to date, 6 per cent. It was thought by council and I think by the general public of Vancouver that particularly this 6 per cent rate was entirely unjustified on the class of security, the bonds of the City of Vancouver, which I would say for information have at times been marketed cheaper even than the securities of the Dominion of Canada. Vancouver has never defaulted on any of its obligations, and no suggestion of its doing so has ever been made. Council thinks in regard to an uncontrolled rate of interest of this kind, particularly when charged by banks which have the privilege of getting Dominion notes on municipal securities and then re-loaning at higher interest rates, that the legislation should be revamped giving the government of Canada authority, under proper control to be fixed in the legislation itself, so that advances for temporary borrowings might be made direct to the municipality. The valuable observations of Professor Carrothers this morning would work out the machinery for a central bank very nicely if such an institution were established primarily for service and not for profit, and advances of that kind could undoubtedly be given to the municipalities.

On current loans the rate of interest has been as follows: First six months of 1931, 5¼ per cent, and from 1931 in the month of May to May, 1933, 5½ per cent; from May, 1933, to date, 5 per cent.

There is not the same spread there as on the current loans against anticipated tax collections as compared with the rate on capital borrowings.

To show that from the standpoint of security the City of Vancouver is entitled to better consideration than they have been accorded by the banks I might give a few more figures. A reflex is shown in the percentage of current tax collections, as follows: In 1929, for instance, 90.99 per cent of the total taxes were collected; 1930, 87.58 per cent; 1931, 83.41 per cent, and in 1932, 75.01 per cent. To date, as of August 8th, 64 per cent of the total taxes has been collected.

The suggestion put forward by the City of Vancouver and by many of the cities, towns and municipalities in Canada, is of course somewhat radical from the situation that has prevailed in the past, but now that this Commission is reconsidering various phases of the banking and currency question the city considered it was opportune to bring this matter to your attention. As a matter of fact they have submitted the proposal to the Dominion government, I am instructed, and they were asked to refer it to this Commission for its consideration. We trust that favourable consideration may be given, and that the different points of what you might call lines of demarcation could be, if you considered the propoal favourably, recommended in skeleton outline to the government for its consideration.

THE CHAIRMAN: Is the operative end of it that you propose that the Treasury Board should issue currency to municipalities against the deposit of approved

securities?

Mr. McCROSSAN: For temporary purposes.

THE CHAIRMAN: And it should be issued direct to the municipalities?

MR. McCROSSAN: That is a question of means or mechanism. I see no reason why it could not be delivered direct to the municipalities. It would then enter into circulation even more quickly than if it was delivered to the banks.

THE CHAIRMAN: Would the Treasury Board have the means of guaging the responsibility?

MR. McCROSSAN: They have to appraise under the Act as it stands bank securities, and it would have to be optional, I take it, that we should not deal with municipalities in default or with municipalities whose securities the Board did not consider favourably, and I presume there would also have to be some maximum limit put on it.

THE CHAIRMAN: Would you assume that the municipalities would pay 5 per cent on it?

MR. McCROSSAN: The municipalities are naturally looking to get it at a lower rate of interest than what they are labouring under now.

THE CHAIRMAN: The banks pay 5 per cent, do they not? The rate has gone down recently to three and I believe just now it is 2½ per cent.

MR. McCROSSAN: The maximum under the Act is 5 per cent, but I think 3 per cent is nearer the average than 5, although I am speaking subject to correction.

THE CHAIRMAN: We had the actual figures before us in Ottawa.

MR. McCROSSAN: I do not think there is anything I can add after putting the proposal broadly before the Commission except to bespeak favourable consideration for it.

THE CHAIRMAN: I am much obliged to Mr. McCrossan

COMMISSIONER LEMAN: I understand that there is a difference between current borrowings and capital expenditures?

MR. McCROSSAN: Yes, under the Municipal Act most of the municipalities in British Columbia, on account of the system of assessments taking place in one year for the year succeeding, have to borrow against anticipated tax collections, and they carry on on borrowed money. For instance our great payment of taxes comes in August.

COMMISSIONER LEMAN: That would be your current requirements?

MR. McCROSSAN: Yes.

COMMISSIONER LEMAN: Then you referred to capital requirements?

MR. McCROSSAN: Those come up when the ratepayers have authorized the issue of debentures, and council in its wisdom thinks that the market is not favourable, and does not always float the issue at that time. The city to-day has several issues that have been withheld.

COMMISSIONER LEMAN: For what reason?

MR. McCROSSAN: Unfavourable market conditions. They think they can do better later, that they can get a better price and that the securities are entitled to a better price.

COMMISSIONER LEMAN: May I ask at what yield the

bonds of the City of Vancouver are presently selling at, if you have that information.

MR. McCROSSAN: I can obtain that for you. The comptroller would have that. Unfortunately I have not had the opportunity of getting all the data I should have had.

SIR THOMAS WHITE: There is an aspect of it which I should like to direct to your attention. I was very interested in your remarks. Similar representations were made some years ago when I was in office. I suppose if your proposal were carried out, practically all of the municipalities would have to be accorded the privilege?

Mr. McCROSSAN: The option of coming within the privilege.

SIR THOMAS WHITE: It would not be a case of simply the largest cities like Vancouver having the privilege?

Mr. McCROSSAN: Favourites could not be played. It would have to be a question of security.

SIR THOMAS WHITE: Municipalities and school boards, I suppose, and provincial governments. You are referring only to municipalities.

MR. McCROSSAN: I do not know that provincial governments could come in.

SIR THOMAS WHITE: The question might arise -- I am not raising it myself, especially at a period like this, as to what effect on the currency the issues would have if they were taken advantage of widely all over the country. You will appreciate that point.

Mr. McCROSSAN: That is the snag. I pointed that out to council in our private discussions, and passing through my mind was the thought that it would have to be guarded against naturally, and there might be an index of almost mathematical certainty which could be arrived at statistically by reference to the amount of money which the banks have advanced to municipalities, and a substantial portion of that could be held from the bank advances under the Finance Act. In other words it would go direct to the municipalities instead of to the banks and would not disturb the general quantum in circulation.

SIR THOMAS WHITE: I just wanted to raise the question which obviously would occur to anyone as to just what extent that might run.

COMMISSIONER LEMAN: You appreciate that the advances under the Finance Act are very, very variable?

MR. McCROSSAN: Yes.

COMMISSIONER LEMAN: They have been down to practically nothing. I suppose the amount would presently stand at about $50,000,000. How far would that go to accommodate the provinces, the municipalities and the school boards of the whole country?

MR. McCROSSAN: If they were asking for no more than Vancouver is asking it would go a very long way because we are asking only on certain issues.

COMMISSIONER LEMAN: What would be the amount?

Mr. McCROSSAN: That depends on the particular issue. Vancouver as a general rule has never had any difficulty.

COMMISSIONER LEMAN: You realize the amount of borrowings that it would represent throughout the length and breadth of this country?

MR. McCROSSAN: Many municipalities by virtue of their standing would be ruled out.

THE CHAIRMAN: It would be difficult for the Treasury Board to discriminate, would it not?

MR. McCROSSAN: Politically, it would.

THE CHAIRMAN: Perhaps not by a board such as Professor Carrothers referred to, but it would be difficult from the standpoint of --

MR. McCROSSAN: If it was adopted as a general policy there would have to be some departmental board functioning along that line.

THE CHAIRMAN: Much obliged, Mr. McCrossan. The Commission will take into consideration the resolution of the municipality.

The next name I have on the list is Mr. Charles Woodworth.

MR. C. M. WOODWORTH: I submitted a memorandum to the gentlemen of the Commission last Sunday when they arrived here and this morning Professor Carrothers has taken up some of the points that I had submitted. It does seem that when the sovereign power has the control of the issue of currency it should not be delegated to the private banks. They should not have the control of credit. I am of the opinion, and I submit it to you, that we are saved from a great many of our difficulties by the Finance Act. We were wise enough under the Finance Act to base the credit of our banks on the

nation's credit, so that is what it actually comes to when they can borrow from the nation. The reason the United States had so many bank failures is that they have based their credit upon the capital and the gold which the banks held.

I have given in my memorandum my reasons for a central bank, and they were given better by Professor Carrothers this morning. There is another suggestion and it comes from a society of which I have been a member for a number of years, and that suggestion is that a central bank will hardly be sufficient and that there ought to be above and over that a banking commission. That is somewhat similar to the idea expressed by Professor Carrothers. That banking commission would deal with two matters, one of which he referred to, and that would be the question of coinage, and credits.

Confining myself to the issue and the control of currency and credits the Commission would advise and co-operate with the central bank, would control inflation and deflation, stabilize the price level and exchange rates, and encourage or retard production, distribution and unemployment, and make or unmake purchasing power. If the central commission had power to do that, they would control to a much greater degree I think than a centralbank.

There is another view of the work which that commission might do. When the central bank is taken over by another central bank they would deal with the amount and volume of bank credit and of currency. But there is a question as to whether the chartered banks

of Canada should not be regarded as having some responsibility for public service. We have that idea very prevalent in Canada in regard to the Railway Commission. Take the Canadian Pacific Railway, for instance. It is as much a private corporation as any bank in Canada can be, and yet the rates which the Canadian Pacific Railway charges, its service, and many other things of that sort are under the guidance and direction of the Railway Commission. Take the instance which Mr. McCrossan referred to, of the City of Vancouver being asked to pay, not 5½ per cent per annum, but 6 per cent. There are thousands of such instances. There is no court, no tribunal and no law which governs the bank in the amount that it may charge, and yet those banks have at the present time the power to issue notes of their own as currency. They have the right under the Finance Act of borrowing, and it seems to me that the banking commission might in a proper case act just as the Railway Board acts now and order a certain service to be performed by the chartered banks of Canada and at a certain rate.

I give in my memorandum a quotation from Sir William Beveridge. He was at that time purporting to summarize for Sir Josiah Stamp, Sir Basil Blackett and others, to show that they were not entirely satisfied in every case with a central bank, but that the central bank should be owned and controlled by the nation. It would be intolerable that that owning and controlling should be done under political pressure or that it should be subject to the changing of administrations. It does seem to me that if this power of controlling currency and of making

and unmaking purchasing power and of dealing with the several things that I have consigned to the banking commission were given, the government might control both the central bank and these various other matters to the very great advantage of the Dominion of Canada.

I wish also to call your attention to one or two things that I have said in my memorandum by way of introduction. You have heard this morning of conditions in British Columbia. We have approximately seven hundred thousand of a population, and at one time last winter we had 129,100 receiving relief, at a cost to the province, the municipalities and the Dominion of $11,000,000, and yet right at our very doors we have an abundance of all foods. As the Commission must have gathered this morning, we have lumber and minerals; in the Okanagan we have tree fruits, and on the prairies right at our door we have wheat. It does seem to me that that is an indication, not that people are not able to produce, but that they are not able to exchange, and the question that is coming to us is, if they are not able to exchange, is there something wrong in the mechanism of exchange; that is, in currency or bank credits. I do not think that things are altogether so happily situated. There was evidence given to you this morning which I would like you to investigate further on the subject of mining. I do not think that Mr. Taylor told you that the mine he mentioned had become a great mine and needed further capital for development and financing. In dealing with the position of the Fraser Valley Milk Producers' Association you were told that the real producers could

not get the credits they expected to get from the deposits of depositors in the banks, There should be some means of giving credit and obtaining credit that we have not yet developed both for mining, agriculture, fishing and other industries.

I have brought to your attention the fact that on the continent of Europe and in several other places they have developed the question of a bank or banks to deal with these matters. We have a great deal of complaint in this province and I think throughout the Dominion. We are hardly getting the service that we require. There are two sides to that question. Some say: Well, if we had local banks such as they have in the United States the banks would have the sympathy of the community and the assets of the banks would be liquid always.

There is a third reason for some of our difficulties. As a practising lawyer I have often said to some person that I was proceeding against, "Well, I would not do any such thing as that myself, but you know I am acting for another person," and so our local managers have been told, "Oh, we would not proceed ourselves."

THE CHAIRMAN: I think Mr. Charles Dickens said that long ago, didn't he?

MR. WOODWORTH: My submission chiefly is not only what Professor Carrothers suggested about a central bank but that there should be a central banking commissio

THE CHAIRMAN: I appreciate that, but it is very undesirable of course to duplicate bodies because all these bodies are expensive, unless you could show it

would have some distinctive function that could not be performed by a central bank. Could not all the functions you desire be concentrated in one institution, both the functions to which Professor Carrothers has referred and these further features to which you have referred as appropriate to your commission? Could you not bring them all into one body?

MR. WOODWORTH: The central bank should not only pass upon loans by itself to other banks but upon loans by other banks to customers.

THE CHAIRMAN: You get into a difficult region there, of course.

MR. WOODWORTH: Moreover it is quite likely that the government would like to assign to the central bank questions dealing with the amount of currency and bank credit in the country. Would they be willing also to consider the amount of the value of the dollar, whether it should be devalued or revalued?

THE CHAIRMAN: Why should they more matters for your commission to deal with than they would have in the central bank ? The personnel would be drawn very much from the same sources. They would need to be.

MR. WOODWORTH: I also quote in my memorandum from Sir William Beveridge who in his book "The World's Economic Crisis" says, and he is purporting to summarize the views of Sir Arthur Salter, Sir Josiah Stamp, Sir Basil Blackett, Mr. J. M. Keynes and Professor Henry Clay:

> Nearly all our transactions are done by credit . . . . Such machinery as we have for controlling that, through the operation of central banks, is not sufficient for its purpose. The making

> and unmaking of purchasing power has fallen into anarchy, and from anarchy spring the alternate inflation and deflation which make our booms and depressions. Unless we can restore effective control and stabilize purchasing power, we shall never escape crises.

If the central bank is not sufficient then, in his opinion, we should add to it, first, public ownership, and then some body or commission that would be a little apart from managing the bank, even a central bank.

THE CHAIRMAN: We have your written representations before us as part of our record, Mr. Woodworth.

MR. WOODWORTH: Yes.

(Memorandum of Mr. Woodworth follows:)

INTRODUCTION:

The area of British Columbia is 372,630 square miles. In natural resources it probably equals Germany with a population of 64,000,000. In tourist attractions it excels Switzerland with 4,000,000 people. But we have a populationof only about 700,000. Of these as many as 127,000 have been on relief at times during the past year and the number now exceeds 100,000. Probably an equal number are in a financial condition almost equally desperate. The cost of unemployment relief last year was about $11,000,0 In Vancouver, house building has shrunk from 2,000 per annum to 114 for the first six months of this year; marriages have fallen from 2,600 to 1,500 per annum. The Canadian

born of large eastern families are ceasing to reproduce, while the percentage of Japanese and alien races is mounting rapidly. About 40,000 children are in Vancouver schools and as only a small portion of those graduating can find employment, a shocking proportion are becoming criminals.

The hungry people of Vancouver are mostly able and willing to work. The farms and gardens of the Fraser Valley at our door can produce an abundance of dairy products, small fruits, vegetables and other farm products, but the farmers are unable to well their products and are drifting into poverty. The interior of British Columbia can bountifully produce tree fruits, potatoes, tomatoes and meats equal to the best in the world, but the prospect for the producer is no less hopeless. In both districts large proportions of the products are left to rot. The province has timber and minerals in abundance. The great world granary of the prairies adjoins this province on the east. Vancouver is a splendid and well-equipped world port.

The great fault in our system seems to lie in inability to profitably exchange our products. The media of exchange are currency and bank credit. Yet, one or two branches of our chartered banks in magnificent buildings can be found on every fine corner of our city. Our people are anxiously in-

quiring if perhaps one principal and primary cause of our distress does not lie in the currency, banking and financial system of Canada.

PROPOSALS FOR BETTERMENT

1. A National Central Bank:

Canada should establish a central bank, wholly owned by the state and managed and controlled by the state through the proper agencies.

a. Nowadays, every advanced country, except Canada, possesses a central bank. I am patriotic but cannot believe that Canada only is right.

b. The functions of such central banks are: first, the regulation of currency, and secondly, the regulation of the total supply of bank money or credit. I cannot believe that either of these functions can be well done by, or ought to be delegated to the present charrered banks. From the earliest times, men have always thought that the making of money and purchasing power should be controlled by the sovereign power. We have unwisely delegated the monopoly of this control to our chartered banks.

c. Our central bank should be owned and controlled by the nation. In England the government and the Bank of England closely co-operate with each other. Yet, sir, W. H. Beveridge says in "The World's Economic Crisis", -- "Nearly all our transactions are done by credit." "Such machinery as we have for controlling that -- through the operation of central banks -- is not sufficient

for its purpose. The making and unmaking of purchasing power has fallen into anarchy and from anarchy spring the alternate inflation and deflation which make our booms and depressions. Unless we can restore effective control and stabilize purchasing power, we shall never escape crises." As I read the book, he is there purporting to give not only his own views, but summarize those of Sir Arthur Salter, Sir Josiah Stamp, Sir Basil Blackett, Mr. J. M. Keynes and Professor Henry Clay. I submit his opinion is entitled to great consideration, as to the operation of a privately owned central bank in England, the most beneficent instance of its kind. Because this was so, the United States very largely reserved to that nation the control of the Federal Reserve Banks, the Federal Reserve Board and the Federal Advisory Council. Press reports and magazine articles indicate that Italy, Germany and France have lately gone very far in assuming absolute control of central and near central banks.

d. It is urged that in Canada, our banks are safe, while lately in the United States the banks were forced to close their doors and there have been many bank failures there. The credit is given to our Bank Act and more especially to the Finance Act. I submit the argument merely shows that United States was wrong in basing bank credit upon gold reserves and bank capital and that Canada was right in basing bank credit in the last resort under the Finance Act upon the power, wealth and credit of

the state. "The basis of a nation's credit is the number, intelligence and industry of its people, plus the capital equipment and natural resources within its boundaries." The credit and stability of our banking system is based on this. But the effective control of the Finance Act lies in the chartered banks for their benefit primarily and only secondarily for the benefit of the state which does not wish to see any powerful private corporation become bankrupt.

e. Under the Finance Act, the banks can borrow unstated sums at an interest rate of three per cent per annum. They reloan at rates from six per cent upwards. The advisers upon the sufficiency of the securities are the banks or their subsidiaries. Yet the banks assume no duty of public service for this right, the right to issue their own notes as currency or their charter privileges.

2. Banking Commission.

The banking system of Canada should be placed under the control of a banking commission invested with plenary powers in all matters pertaining to currency, coinage and credits. This idea is familiar to Canadians by the working of the Railway Commission and the Tariff Board. They see in the United States, the Federal Reserve Board and the Federal Advisory Council, also lately the agency for carrying the N.I.R.A. into operation. By this course we would avoid the objection that these matters ought not to be subject to partisan political

pressure or the changing policies of succeeding administrations.

Confining itself strictly to banking and currency, the duties and accomplishments of such a commission would cover a wide field. It would act as a court of appeal for all complaints as to rates and service of chartered banks to customers and of the National Bank to chartered banks. When the City of Vancouver complained last spring that the rate on its overdraft had been raised from 5½ per cent to 6 per cent per annum, it found no law to govern and no body to adjudicate. Thousands of very similar cases arise yearly throughout the Dominion.

It seems that we are coming to an age of managed currencies and managed credits. The volume of money will be managed either in terms of gold or according to the needs of the people. On the same principles the value of the dollar will be fixed from time to time. So, confining itself to the issue and control of currency and credits the commission would advise and co-operate with the central bank; control inflation and deflation; stabilize price levels and exchange rates; encourage or retard production, distribution and employment and make and unmake purchasing power. It would be composed of learned experts and would act upon its own knowledge and investigations or upon evidence, or upon both combined.

3. Bank Notes

The right of the chartered banks to issue

their own promissory notes as currency should be abolished. This obviously follows from what precedes. "Canada, 1933" at page 155, gives the amount of these at $133,426,857. The benefit of this note issue as well as that of present Dominion notes should accrue to the National Bank or the Treasury direct.

4. Costs and Benefits

Interest for the use of bank credits and currency should be largely reduced and the benefits of credit should be more widely extended. Finance of itself produces nothing. Money and credit as media of exchange are mere markers or chips in the games of production and distribution. As a means of storing value, bank credit now has the whole field. If a citizen is entitled to credit he should be given it for the cost of investigation and the care needed for its attention. It does not reflect credit upon our economic order that in Canada banks charge the ordinary borrower eight per cent per annum compounded every three months. Sir Josiah Stamp says of Britain: "Through our money market, our acceptance houses and our discount houses we have financed the trade of the world and that has earned us a lot of money which has played a very important part in feeding our huge population."

Our vast system of chartered banks is not designed for the service of the farmer, miner, or other producer, as its policy is to keep its assets liquid. It is framed to aid in the distribution

of goods and serve the financier. Under its benign rule, distribution has broken down, but the financier has waxed great and become a national menace. How frightfully it performs the duties I have assigned to the banking commission and the national bank, you will hear at every sitting.

In Canada, we do not have issuing houses or discount or acceptance houses. The poor man goes to the private money lender or pawn shop and pays fabulous rates. Loans on realty are made by individuals or companies. Money for companies or business enterprises is obtained by the sale of bonds and shares. Such services and service to the producer referred to in the preceding paragraph are needed badly. These functions are served by the banking systems of the continent of Europe and somewhat by the local banks of United States. The law should provide for charters for such banks or financial houses and their supervision by the banking commission.

5. Unearned Increment

From "Canada, 1930", page 156, I copy the following measurements of the currency and banking of Canada:

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Dominion Notes	$154,160,147
(Of these 69% are held as Bank reserves, leaving a balance for circulation of	47,769,646
Bank notes	133,426,857
Bank branch offices - 3500	78,000,000
Total assets of the banks	2,799,000,000
Liabilities to shareholders	306,000,000
Liabilities to the public	2,742,000,000
Loans and discounts	1,764,000,000
Deposits by the public	2,423,000,000
Gold owned by the banks, I am informed, is less than	70,000,000

Outside the value of the offices and the gold held, the assets are derived from the increment of association and upbuilding of Canada and the bank charters.

6. Socialization

Perhaps too conservatively, I ask only for a national central bank and a banking commission and for the chartered banks not socialization but more effective national control. For their privileges, they should assume some duty of public service. If their charters are renewed much as they now are, th will not be renewed at the end of another ten years at all. What of the interim? The banks might ga more by conciliation now.

(Signed) C. M. Woodworth

THE CHAIRMAN: The next name is that of Mr. Mitchell, who represents the Society for Technocratic Research.

MR. W. MITCHELL: With your permission, my lor I should like to read a brief memorandum as follows:

VANCOUVER SOCIETY FOR TECHNOCRATIC RESEARCH

On behalf of the members of the Society for Technocratic Research of Vancouver, British Columbia, which society is conducting a study of the economic affairs of Canada but whose members do not pretend to be expert in the finer details of the banking profession, I beg to submit the following as a consensus of opinion in the matters now before you, vi :

It may be taken for granted that there is no complaint in respect to the operation of banking as it is carried on within the Act; that is, no criticism of banking methods is made on the ground that the banks do not live completely within the various Acts of Parliament governing them, but the complaint is rather that the provisions of such Acts are so wide and allow so much latitude as to permit banking to become a monopoly in control of the nation's exchange, and to allow of bankers dealing in money as a commodity, of which they themselves have the sole right of manufacture and in such a manner as to be perfectly sound business for the bankers and economic futility for the rest of the people.

In the populat philosophy of the street the word credit is associated with banking on the assumption that banks grant or withhold credit according to the dictates of the

managing officers or the economic conditions prevailing. The genesis of credit in so far as this Dominion is concerned may be traced to the action of the great fur-trading companies in supplying their Indian proteges with their summer supplies in anticipation of the repayment of such advances in the form of their winter catch of furs, and this was credit in its true sense as the only bond was one of faith and confidence. To some extent this was, and yet to a slighter degree still is, the relationship between the manufacturer and the wholesaler, and between the wholesaler and the retailer. Commodities are furnished in anticipation of eventual repayment, without any bond or security being asked or given.

In a general way, however, we do not find the banks working on this principle. When a client desires the advance of money, or "credit", he requires first to satisfy the banker as to his financial stability, and secondly, to put up some security as collateral. The banker is not permitted to advance money on the security of a real estate mortgage, but that does not prevent the banker asking the borrower to deposit with him his certificate of title to such property, and without that certificate no transaction affecting the property can be

conducted, so that it has all the force and effect of security under a mortgage.

It will therefore be seen that whilst credit in its true sense is the granting of currency or commodities upon a promise to repay, banker's credit is merely the exchange of one form of commodity for another, with a promise on the part of the bank to at some future date reconvert the items now exchanged, plus interest, of course. In view of the fact that the banker is dealing with the money of his depositors, very little exception can be taken to his careful efforts to safeguard his loans, and we here merely wish to emphasize the difference between true credit and banker's credit, which latter is carefully secured loans.

Our claim is that money was originally devised as a medium of exchange but that, under the profession of banking, it has become a commodity, in no way related to the production of the goods it was originally intended to exchange.

In 1929 the gross production of Canada amounted to over six billions of dollars in value, but the entire currency in circulation, - and considerable of it was in the form of $50,000, clearing House certificates - only amounted to some two hundred and eleven million. The free exchange of that year's production, therefore, was limited to the tempo at which the relatively small amount of currency in circulation would move.

The economy of the present system is based upon a scarcity of money in order that its earning power may be greater, but this is incompatible with the free exchange of commodities and labour. It may be true that not the quantity of currency in circulation, but rather the tempo at which it circulates is the deciding factor in estimating the turn-over of commodities and the consequent rise and fall of trade; nevertheless, anything that tends to restrict the free exchange of labour, or products is detrimental to our social welfare.

The inefficiency of the present system is shown in the fact that during times when business is good, it is comparatively easy to borrow from the banks, but in times when conditions are adverse, as they now are, such borrowing is practically impossible.

Commodities are manufactured and the purchasing power of the people os produced under

under one set of circumstances, and the money which exchanges the two items is produced under another, entirely unrelated, and it is, therefore, absurd to expect any harmony of operation.

Whilst, as Technocrats, we ultimately envisage a form of terminal money, or individual credit, that would be issued coincident with the pace of production, we realize that such a concept is considerably in advance of the times, and that, in the meantime, to make the best of the conditions we have to face and still progress toward that ideal, we are in favour of the establishment of a Government-owned and operated Central Bank, conducted free from political influence, and in the same manner as is the Post Office Department, and from which Bank the subsidiary Governments of the Provinces, the cities, and municipalities may obtain financial loans against physical securities at a minimum rate of interest based upon the cost of operation of such Central Bank only; thus taking the funds for administration purposes out of the rank of a commodity and leaving the Chartered Banks to deal, for the time being, with commerce.

For purposes of its evaluation, the dollar should be based on the Index of 502 wholesale commodities now monthly recorded by the Government - thus a dollar would represent what it would buy and not a fictitious or self-commodity value.

Such a Central Bank as that referred to,

would issue new money and make loans thereof, subject to certain restrictions in volume, and based solely upon the physical assets of the various communities. If the value of the Canadian dollar was first standardized upon the average of the five hundred and two commodities mentioned, then the theoretical inflation resulting from the issuance of such new currency would not affect the value of the Canadian Dollar, either that of the Government issue, or of those already in circulation, and all new issues except replacements would be the perogative of the Central Bank.

That, my lord, is the statement we have prepared, as the concensus of opinion of our organization. As I say, we are not experts in finance , but we have made a very careful study of the general conditions in Canada over a certain period of time. We have received Governmental records from time to time, of which this brief list to which I have referred is a sample, and which I will be glad to turn over to the Commission for their information; and we have also received other information, and have prepared a little brochure regarding Canada, and particularly with regard to the gross productions, which w as prepared from statistics gathered from governmental sources entirely, and they are absolu t tely authentic, and I think the figures contained in that would also be of considerable use to you.

THE CHAIRMAN: Thank you, Mr. Mitchell. You have explained your viewsvery fully, but there is one thing which puzzles me a little. You are in favour of the establishment of a Central Bank, but you describe it as "Government

owned"; what do you mean by "government-owned?

MR. MITCHELL: The bank would have the functions of the Government, but not profit in it. It would be a function of the Government, in the same manner as the post office.

THE CHAIRMAN: Do you mean represented in Parliament by a responsible minister?

MR. MITCHELL: By a minister, yes.

THE CHAIRMAN: A party politician?

MR. MITCHELL: I would not like to think that.

THE CHAIRMAN: Are not all ministers party politicians? I thought I myself was the only minister who was not a party politician.

MR. MITCHELL: There might be another in Canada, sir.

THE CHAIRMAN: But quite seriously is that not a point you want to consider? Is it not undesirable that the currency of your organization should be subject to political pressure?

MR. MITCHELL: We a re opposed to that, my Lord. We are only making suggestions; we do not want to go into the mechanics of it at the present time.

THE CHAIRMAN: You said "Government-controlled"--

MR. MITCHELL: Yes. We mean controlled by the country, outside of private interests.

THE CHAIRMAN: It may be important it should be independ ent of the government as well as independent of profit-making. Are you not more disposed to favour a body which may speak with the government, also with an independent voice?

MR. MITCHELL: It might be well.

THE CHAIRMAN: If it is owned by the government --

MR. MITCHELL: Our intention, in referring to the Post Office, was that it was not to be a profit-making bank.

THE CHAIRMAN: Ah, we are all agreed that private profit should not enter into it at all, but independence should be required.

MR. MITCHELL: Oh yes, absolutely.

THE CHAIRMAN: That is, independent of the government?

MR. MITCHELL: Yes.

THE CHAIRMAN: Why?

MR. MITCHELL: I just wish to point out that feature to you.

SIR THOMAS WHITE: May I point out one thing? In your first paragraph on page 2 you say: "The gross production of Canada amounted to over six billions of dollars, and the entire currency in circulation only amounted to some two hundred and eleven millions." I suppose you mean notes of the bank --

MR. MITCHELL: I mean the circulation media only -- the currency only.

SIR THOMAS WHITE: You overlook the bank cheque. You see what I mean? It is one of the greatest instruments of modern banking.

MR. MITCHELL: Yes. In the same year the bank cheques circulated to the extent of thirty billions of dollars.

SIR THOMAS WHITE: It is one of the greatest instruments. I wanted to point out that you did not take account of one of the main instruments, namely, the bank cheques.

MR. MITCHELL: Yes, thank you.

THE CHAIRMAN: We also had a memorandum from Mr. Mansell. Is he present?

MR. MANSELL: Yes, my lord.

THE CHAIRMAN: Would you like to supplement your statement? I understand we have your statements before us, and you might desire to amplify some points.

MR. M. MANSELL (Vancouver): I have no desire to amplify it particularly except on one or two points, but there might be some questions you would like to ask. I think I covered what points I wished to make.

I shall for a moment, with your permission, speak in regard to the Prairie Farmers Bank and of the service they render to the farmers on the prairies, of whom I am one, and whom I represent. In connection with that I do not think I need to prolong the agony beyond what I have written, because I hope, your lordship, that when you get down there the farmers will not be afraid to turn out, and not be afraid to lay their cases before you, because it seems to me it is palpable that no farming community can continue to pay any such rates. I think there is one gentleman on the Commission who will agree with me. No farming community, in my estimation, can pay eight per cent. I have been in very continuous touch with the prairie farmer for now

nearly forty years, and I do not hestitate to say that the banking system as operated on the prairies during that period has done more to deter prosperity and the growth of the country than all the ha il and drought and frost the country has ever experienced - and that is a pretty broad statement, because after all, a farmer only gets hailed out or frozen out or dried out once in a life-time, but when he has to continually go on like this with the system in vogue on the prairies, I believe he is up against an impossible situation, as far as making a real country out of it goes. I have named several points in this memorandum. There is one I did not name, which is a pernicious practice which should be stopped, and that is when a farmer gets behind in his debt it is a very general practice to force him to put on extra life insurance, which is not needed for his own protection or that of his family, and the moment he has done that he has "gone to the cleaners" - he is finished for all time, because it means raising his rate from eight per cent. to from twelve to fifteen per cent. at one jump, by the time he takes the premium. That is a very universal practice. Otherwise, your Lordship, I think my point is quite clear.

THE CHAIRMAN: Thank you, that will have our consideration. Mr. Hockin has asked to submit a memorandum of which we have copies. What is your special interest, Mr. Hockin?

MR. J. HOCKIN (North Lonsdale, B. C.): Lord Macmillan and gentlemen of the Commission:

I am recently from the northwestern corner of Alberta, and adjacent Peace River Block. We need some kind of regional currency there. Relief cheques and pensions are the principal source of money. In Township 77, Range 1 west of 6, we were told we could have no work on roads because taxes were unpaid, and because no relief had been asked. Tax redemption certificates to be worked out would develop this Township. Last year I worked some thirty-seven days for barter, and three days at one dollar and fifty cents per day. I might add that is all I could get in a year. All credit is frozen, because plank number seve of elected party's platform is unfilfilled.

THE CHAIRMAN: Perhaps you might help me. I do not know what "Plank No. 7" is. Could you tell me, in a senten what it is?

MR. HOCKIN: We all know it in the Peace River. Th took me to the Peace River. I spent three years there on account of it. I think I have something against the Government for that.

THE CHAIRMAN: What was this plank in that platform?

MR. HOCKIN: This plank, my lord, was they were to build a coast outlet to the Peace River?

THE CHAIRMAN: Oh, I see.

MR. HOCKIN: General McRae, in a letter of reply, lays blame on financial conditions. He told

me he did not know when it would be done.

I am now a resident of the District of North Vancouver, and have been since the war, except for the three years I was in the Peace River.

Over-assessment has killed this place. It is now in the hands of a Commissioner. Propert sold for bare taxes goes on assessment rolls at former value. I think that if property be sol once for taxes, then the bondholders should get their pro rata, and have no other come back against next holder. The burden of relief caused by financial depression is great.

One man whom I was to employ got a chance to work on relief at good wages. He did not want to go to Tranq'lle and "bring home the bacon". Later again he derided my homestead-ing, preferring to live at the country's ex-pense. He told me the country owed him a liv-ing. It may be is right, too. Personally I believe relief men should be shock troops to build coast outlet or other worthy act, or else technocracy is not so crazy, then lower the age of retirement and pension without any attached d grace.

Inflation of thirty-five millions in January last - at least in an editorial of the third of February, the editor of the Norfolk paper referred to it as "some weeks preceding"- is helping conditions. Inflation is a way of going broke, hurts old ones, and may be necessa

I at one time saw the Indians leave an old lady beside the shore and go on without her. This they did twice , and we had to take her up and bring her in. It was in a land where we had no currency. We had the natural gold for currency.

Deflation is robbery and falls on speculators and workers.

I saw a graph showing depressions are simultaneous in all countries. Caused by sun-spots? I don't think. This graph I tried to find for you yesterday, I could find it in my cabin on the Peace River. I cut it out, but I have not got it with me.

Finance Act, 1914, was a Central Bank for us, and a good one. Assistant Receiver General being placed in Winnipeg. I may say that on my own representations, I hadmy interest cut down from seven percent to six percent for th Co-Operative Elevator Company of Saskatchewan, ar we felt the Finance Act w as very good in placing an Assistant Receiver General in Winnipeg, who advanced money to any extent required on security with bills-of-lading.

We do not wish an elastic measure stick.

The Germans blame the Jews, yet was it not a Jew who took a whip and chastized the money changers? "Caeser's wife must be above reproach".

THE CHAIRMAN: We are very much obliged to you, sir.

We have a request from a representative of the League for Christian Social Act, Mr. H.T.Allen. He has a submission to make to us. Will you kindly come forward, Mr. Allen?

MR. ALLEN: The form in which we present our statements, your lordship, is not in direct relationship with economic questions. We are interested more in the ethical side of economic life, as perhaps you will readily understand. May I take the privilege of reading this statement?

THE CHAIRMAN: By all means. It is a quite reasonably short statement.

MR. ALLEN: It is in four sections, as follows:

I. Nationalization of banking: The logic of public ownership of finance; dangers of private banking; evidences of misuse of powers.

II Volume and Basis of Money: The Age of Plenty and the Function of Finance ; restrictions of an arbitrary money standard; price and money fluctuations; need of a flexible standard.

III. Reduction of Debt. Total volume of debt; deflation and the new burden; debt level and price level; servicing of debt versus the servicing of human needs; extent of reduction.

IV. The Returns to Money versus Returns to Labor. Profits and workers' incomes; reduction of interest rates.

NATIONALIZATION OF BANKING.

We are convinced that the time has come for the nationalization of the financial system of Canada.

To make the existence of a community possible, certain functions must be performed. Among these, the function of finance is one of the most vital. Real credit however, is a social product, and is based upon the wealth , both real and potential, of the community. Upon this real credit, financial credit is actually based, although it may have other legal basis. It is virtually impossible to over-estimate the importance in our economy, of financial credit. Yet this power to issue credit and currency, or money, has been alienated from the community and placed in private hands for private profit. This private creation, control, and destruction of money on the opportunistic basis of profit runs counter to the welfare of the community.

The private control of finance is a danger to public welfare from the point of view of monopoly, to which Canadian finance has approximated, thus giving vested financial intereststhe power to control the economic and political life of Canada. Dictation of the policies which governments should follow has been possible because of this hegemony - dictation to that governmental body by virtue of whose action the system of private finance exists.

The cutting down of public services has gone on apace. Education, mothers' pensions, and other services have suffered at the instigation of finance, but there has been no suggestion of a cut inthe less essential factors of the

returns to bondholders and investors. Credit for solvent and economic industry and business, as well as for governmental bodies, has been unduly restricted. One would think the logical method would be that terms of finance should be made easier in times of depression and tighter in times of prosperity, but the financial system has operated in exactly the reverse order. Thus the danger of the private control of finance has not been academic, and we must be relieved of this danger in the future.

THE VOLUME AND BASIS OF MONEY.

We are convinced hat there has been an insufficient volume of money in he hands of consumers to maintain a proper living standard, and that this has been due, in part, to a mistaken monetary standard.

One of the main purposes of an economic system is to place permanent purchasing power in the hands of the people in sufficient quantities to maintain a decent standard of living. In any society other than a free society the part of money is to make possible the transference of goods from the producer to the consumer. Our age is an age, not of scarcity, but of plenty. Therefore any restrictive money policy, such as occurs with the use of a commodity standard such as gold - which itself exists only in small quantities - seems to provide a volume of money insufficient to transfer consumers' goods in an amount adequate to meet human need. In addition to this there is the problem of the rise and fall in the price level due to the appreciation or depreciation of money, and other factors. Such fluctuations make an ordered economy impossible of attainment and are

alternately a boon and a bane to creditor and debtor. We therefore suggest that the money standard be some more flexible standard such as internal consumable production, and that the volume of money be related to such a standard, in such a manner as to make fluctuati impossible, and to provide sufficient money to finance the highest possible degree of consumption.

III. REDUCTION OF DEBT.

We are convinced that the only solution to the problem of debt is reduction to a degree commensurate with the abilities of the people to carry it without undue expense to human life.

Of recent years, the debt burden of Canada has increased in an alarming manner, until the present load amounts to from eighteen to twenty billions of dollars. The process of deflation to which we have been subjected has added immensely to this burden. The price level has fallen approximately forty per cent, thus making the real burden of debt, in relation to the value of money, approximately sixty per cent. heavier than it was four years ago. The servicing of this debt under the present conditions and with present interest rates can only be done at the expense of the servicing of the prim debt of human need.

We would suggest not only a reduction in rates of interest on this debt, especially the public portion of it, but a writing down of the total debt structure to a substantial degree, if it is not to prove overwhelming.

IV. RETURNS TO MONEY VS. RETURNS TO LABOR:

We are convinced that the proportion of the reward of money to the reward of labor is too much in favour

of the former.

In the industrial era the main aim of commerce and industry has been the making of profits. Large profits have been possible because of the small income return to salaried and wage earners. In the latter years of the past decade, interest, dividends, and profits, increased with much greater rapidity than did workers' incomes, which, in many cases in relation to the price level, had really decreased.
In 1930 when employment was lessening, wages falling, and prices declining, dividends proclaimed were even greater than in 1929.

Interest rates also have been generally too high, making the increase in money normally greater than the rate of increase in production or in population. It might be financial heresy to suggest the elimination of interest entirely, though there is impressive support for such action. We content ourselves, however, with the suggestion that very substantial changes must be made in the proportion of returns to money and labor, and in the reduction of interest rates, if human values and human needs are to have a dominant place in our economy.

All of which is respectfully submitted.

THE CHAIRMAN: Many thanks, Mr. Allen. Do you wish to add anything?

MR. ALLEN: No, I do not think so, my Lord.

THE CHAIRMAN: Then we shall place your memorandum in our files.

Is Mr. Jensen in the room?

MR. JENSEN: Yes, my lord.

THE CHAIRMAN: I understand you have submitted a document to us, and that you desire to explain the last paragraph.

MR. JENSEN: I felt that the last paragraph was particularly within the scope of your inquiry, and if I had not put it sufficiently clear there, I was prepared to the best of my ability to answer any questions upon it.

THE CHAIRMAN: I think you have presented your propositions quite clearly.

MR. JENSEN: Then I will not take up any further time with it, your Lordship.

THE CHAIRMAN: That is the operative part of your views?

MR. JENSEN: That is altogether a separate part from the remainder. The remainder is in regard to an international currency system which I thought would be a very valuable machanical help for our present difficulties and this seventh paragraph should get rid of all charge on exchange, and would get over any supposed difficulties in a favourable trade balance or an unfavourable trade balance and would stop us from getting into debt to other countries.

THE CHAIRMAN: I see. Thank you very much, Mr. Jensen.

Well, we have had the satisfaction of, I think, affording a hearing to every person who sent in their names to the Secretary as being desirous of addressing us.

Wehave had in addition a number of written representations, all of which will have our consideration.

Tomorrow morning we propose to meet at half past ten. We shall stand adjourned until that hour tomorrow morning.

EXHIBIT FILED BY C.M.WOODWORTH

Reasons arranged in order, for appointment of banking commission, in response to question of Chairman, with reference to memo., by C. M. Woodworth.

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1. Some functions of a central bank are not likely to be performed as successfully in Canada as they have been in England.

   It is found in the United States, neither the action of the bank rate nor open market operations are as effective in controlling the volume of currency and bank credit as in England This is likely to occur in Canada.

2. Even the Bank of England and other central banks have not been able to control inflation and deflation, price levels and purchasing power effectively.

   (See quotation from Beveridge, lower half page 2 of memo.)

3. I would expect this proposed commission to accomplish some further tasks mentioned at the middle of page 4 of the memo.

4. Italy, France, Germany and the United States are moving towards complete control of central banks. (See memo., top page 2.)

5. If we are to exercise control over the rates an services of the chartered banks and force them to perform services to the public, such a commission would be a fitting instrument.

(Signed) C. M. Woodworth.

The Commission adjourned at 3.30 p.m. to resume at 10.30 a.m., Wednesday, August 16th, 1933.

EXHIBIT FILED BY C.M. MOOTHERTON

[illegible]

Memoranda prepared in [illegible] by Commissioners of Banking Department, in response to questions of Commission, also provided to Commission by C. M. Mootherton.

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1. Some functions of a central bank are not likely to be performed as successfully in Canada as they have been in England.

   It is found in the United States, neither the action of the bank nor open market operations are as effective in controlling the volume of currency and bank credit as in England. This is likely to occur in Canada.

2. Even the Bank of England and other central banks have not been able to control [illegible] and deflation, prices [illegible] power effectively.

   (See quotation from Beveridge, lower half page [illegible] of memo.)

3. I would expect this proposed commission to accomplish some further tasks [illegible] middle of page 2 of the memo.

4. Italy, France, Germany and the United States are moving towards complete control of central banks. (See memo., top page 2.)

5. If we are to exercise control over the rates and services of the chartered banks and [illegible] to perform services to the public, such a [illegible] would be a fitting instrument.

(Signed) C. M. Mootherton.

The Commission adjourned to resume at 10.30 a.m., Tuesday, August 16th, 1932.